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With The Editors

Moral Preparedness

ONE of our better known poets accused the people of this country not so long ago of being "morally unready" to fight for what they cherish. If true—and there seems to be something in it that hurts more than a baseless slander should—then that side of the defense program has been neglected too long.

It is not enough to put a gun in a man's hands or even to station him in a powerful modern fortress. He must be convinced right down to his toes that he is fighting for something definite and worth while, that he has something to win if his efforts are successful, that behind him are millions of others lending their support with the same fervid conviction. In the last analysis, it boils down to a question of national morale, of which the most important part is civilian, not military. A soldier will always be brave until he begins to doubt the things, the people and the government he is fighting for. Then lack of incentive is worse than lack of tanks; bewilderment does more damage than Stukas.

It is clearly the duty of the men back of the lines and particularly of industry and finance and the leaders of economic thinking to turn democracy from a formless, rather vague defense of the status quo into an aggressive force. They must show the world that it is moving forward to produce the things everyone lives for. The aims must be made definite. If in addition to the right to speak and worship as he pleases every man is to be guaranteed the right to work and support his family at a decent level—if we can make such promises—now is the glorious time to make them. The old slogans are threadbare. Men today, like the Crusaders, want to know their eventual goal, even if it lies at a desperate distance.

There is no doubt that civilian duty in the physical preparedness program is already understood. The nation is taxing itself sternly, many plants are taking orders they would rather not have, and some are actively cooperating, as United Aircraft is in licensing Ford to produce its own Pratt & Whitney aircraft engines for the sake of speed. But loud as these actions speak, this is a case where words are necessary, to tell the stupefied world what democracy offers that makes it worth a man's life. To the Bill of Rights must be added a Bill of Duties applying to all civilians and corporations in order that they may continue to enjoy their rights under a democratic government. Hitler's promises of booty to his people must be matched by a statement of our own aims, and by confidence that the soldiers are not the only ones to make sacrifices for them.

* * * IN THE NEXT ISSUE * * *

HOW GOVERNMENT WILL FINANCE ARMAMENT SPENDING

By Ward Gates

A three-billion deficit in 1934 convinced many that national perdition was close, that bonds should be switched into stocks and bank balances invested before debt repudiation destroyed the value of the dollar. The question is back, but swollen in size. Now, however, we can look at it more calmly with Ward Gates and calculate the meaning of these extraordinary fiscal operations, their influence on our money, our investments, our national future.

PROFIT MARGINS FOR 1941 BY INDUSTRIES

By John Lloyd

Sharply rising volume normally boosts profit margins. But today the increase in business is having the opposite effect in many cases—and the sophisticated view is that 1941 will see a struggle to turn over goods rapidly enough to offset smaller unit profits. Here are the factors now causing the turn and those soon to come into effect as the arms program accelerates.

ANOTHER LOOK AT THE AIRCRAFTS

By George Merton

Less than a year ago the aviation stocks were in full upward career when the writer of this article warned that they could not continue and gave his reasons. He was right, at a difficult time to make such a prediction. Now he tackles them again, not as a theorist but as a hard-headed investor with a decision to make. You will find the approach refreshing, the conclusions challenging to your own ideas on this most dynamic of all today's industries.

Courtesy Crucible Steel Co.

Steel castings and forgings typifying heavy industry are already in the boom era predicted for early autumn. How far this can go, how long it can last, are questions probed in the article on page 658, "Rise or Pause in Fourth Quarter Business?"

THE MAGAZINE OF WALL STREET

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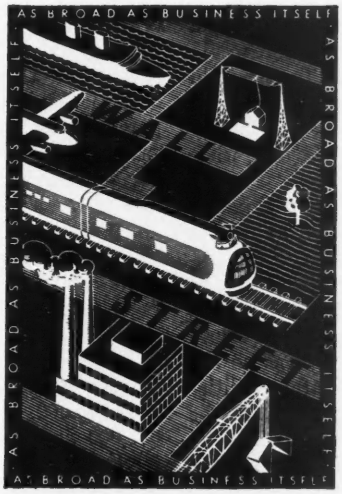


The Trend of Events

LABOR AND DEFENSE . . . "I am convinced that a breakdown of existing labor and social legislation would weaken rather than increase our efforts for defense. Continuance of them means the preservation of the efficiency of labor. It means the return to work of several millions who are still unemployed.

"And the employment of additional workers and the provisions for overtime work will insure adequate working hours at decent wages to do all that is now necessary in physical defense. We will not overlook the lesson learned in Europe in past years."

While President Roosevelt was telling this to the convention of the Teamsters' Union, Republican leaders in Washington were wholeheartedly agreeing, as reported from there by E. K. T. elsewhere in this issue. There is no conflict, except for the honor of protecting labor's rights most efficiently.

The question of labor's duties and rights in the defense effort seems thus to be neatly removed from the political arena. In ordinary times that would be a most acceptable development, and for the purposes of the fall campaign it is also desirable. But no one—politician, industrialist or worker—can blink the fact that there is another more immediately vital question which may come to the surface at any time. If the interests of labor, or of capital or management for that matter, come into conflict with the efficiency of the defense program, which is to give way? Any trifling with the answer to that, and the right to a forty-hour week may become an interesting bit of lore from the pre-totalitarian era.

THREATENED LIVING STANDARD . . . One of the most practical questions now facing the American people is whether the economic changes and higher taxes incident to the armament program will lower the standard of living. The orthodox financial stand has always been that any public investment which is not self-supporting is uneconomic; therefore, a burden to the productive economy. But the field of public investment has been widening for decades—investment in roads, schools and hospitals are examples. These things are socially useful but not self-supporting. It can be argued that a battleship is not as socially useful as a school or a road—but if our free existence is threatened by aggressor nations on the march, armaments are not only socially useful but more useful than any other type of investment.

Getting down to brass tacks, the production and maintenance of armaments on a large scale obviously increases business activity. Anything which increases business activity tends to increase total payrolls and national income. Therefore, solely of itself, the presently projected program should tend to increase the living standard.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS · 1907 — *"Over Thirty-Two Years of Service"* — 1940

But whether it does so or not will depend on collateral circumstances. While a sharp rise in the cost of living would nullify the gain, such an inflation appears highly improbable. Back-breaking taxes, as severe as those now effective in England, would have a similar effect—but a democracy does not tax itself to this extent unless and until its back is to the wall. Finally, forced curtailment of non-essential civilian production, in order to divert facilities to the making of armaments, would make for a reduced living standard. The two latter threats would increase greatly if we entered the war. They would increase in some degree if England were conquered, thereby intensifying the German threat to us and forcing us to expand our armament activities much beyond what is now contemplated.

The more favorable contingencies are that England may hold out and that we may go ahead for at least a year or two with an armament effort about as now indicated. On that basis the national income in 1941 should be at least $77,000,000,000, and, assuming no rise in the cost of living, its per capita purchasing power would be approximately equal to that of 1929, whereas now it is at a level some 4 per cent under 1929. Finally, facilities for making civilian goods can not in most instances be used for armaments, which means no important diversion of such facilities is in immediate sight. We can only get armaments by expansion of certain specialized facilities, such as shipyards, aircraft plants, Government arsenals, explosives plants, and so on. Any forced priorities will center in key capital goods industries, such as machine tools, railroad equipment plants and steel, and therefore will not directly affect consumption goods or the standard of living. Unless radically changed by future events, the armament program will add to total economic activity rather than subtract from it.

GOOD ADVICE . . . Long before the present war was dreamed of an overwhelming majority of tax experts, in and out of Government service, had concluded that the method we used in taxing surplus profits after our entrance into the World War was overly complicated and generally unsatisfactory. Apparently the experience of the past is unconvincing both to our Treasury chiefs and to Congress.

One of the various reports on the defects of the World War tax method was made in 1932 by the War Policies Commission. A pertinent observation from it follows:

"Most of the administrative difficulties arising out of the Excess-Profits Tax Law were due to the necessity of ascertaining invested capital. This base should not be used in another war. Some of the provisions of the law were so highly complicated that they could not even be litigated because they could not be reduced to logical argument, pro and con. The determination of what constituted invested capital was an insoluble problem during the continuance of the tax, and is still unsolved."

Nevertheless the Administration, through the Treasury and Congressional leaders, is pressing for inclusion of this "invested capital" base in the pending excess profits tax bill and the House version of the bill puts a heavy penalty on use of the alternative "average earnings" base. As it stands, the measure is hopelessly beyond the understanding of the lay citizen and a bone of contention and disputed interpretation among the experts.

If the objective is for the Government to recapture the entire amount of profits due directly or indirectly to armament and war orders, that is not subject to valid objection. The problem is wholly one of method. The fairest and most practical method is to use an "average earnings" base, applied to the great majority of enterprises; and to use a simplified "invested capital" base only for a minority of newly established or enlarged corporations as well as for those which had sub-normal earnings during the base period.

No revenue will be collected from this tax before next March 15. There is still no good reason—except election politics—why the badly needed plant amortization provision cannot be adopted as a separate measure, while Congress takes adequate time to write an excess profits tax law that is something better than a Chinese puzzle.

TRADE FOLLOWS THE FLAG . . . Although July exports were 10 per cent lower than those of June at $317,000,000, they were substantially above the $229,631,000 figure of a year ago and they brought the total for the first eleven months of the war to a level 88 per cent above the same period a year earlier. France practically disappeared as a taker of American goods, but Great Britain increased her purchases almost enough to offset this loss, and has now assumed responsibility for 90 per cent of our trade with Europe.

Concentration of exports to Europe in a single destination with its highly specialized requirements has intensified the distortions that set in soon after the war began. Gains in sales of aircraft, tools, steel and munitions are now being offset by declines in peacetime goods. And other parts of the world are definitely failing to relieve the pressure that is being put on different sections of our economy. South America and Asia are alike disappointing hopes that normal trade with them would be ballooned by the preoccupation of European suppliers.

One hope in connection with Latin-American exports lies in the old saying: Trade Follows the Flag. The flag is moving down to enclose the Caribbean and the Panama Canal in a protective net, carrying the prestige of visible power and action. Men, dollars and ideas will flow more freely between the two continents from now on, and it will be surprising if the flow of trade is not also encouraged. When we acquired military bases from England in exchange for destroyers we also gained economic bases that may outrange the biggest guns we can produce.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 656. The counsel embodied in this feature should be considered in connection with all investment suggestions elsewhere in this issue.

Monday, September 16, 1940.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS · 1907 — *"Over Thirty-Two Years of Service"* — 1940

As I See It!

BY CHARLES BENEDICT

HITLER'S SUPREME EFFORT

How well is Britain prepared to take the knockout blow aimed at her by Hitler? That is the question uppermost in our hearts and minds at the moment.

The English are exhibiting the staying power that brings victory. The savage attacks are destroying the homes of thousands—demolishing the cherished landmarks of centuries of civilization, yet these crushing blows are not undermining morale or stamina. Miracles can be accomplished with such spirit.

Nor has the machinery of government and industry been seriously impaired. For a year and more, important governmental and economic organizations have been evacuating London leaving only skeleton staffs. Factories have been going underground and substantial plans against invasion and against gas have been worked out. The lessons of Spain, Poland and the rest have been remembered.

The British know that Hitler will stop at nothing in an attempt to win—for destiny is ticking off the precious days and hours that must be made to count if the Reich is to cash in on its victories to date. The outcome of the Battle of Britain will decide the future of Nazi Germany—because it is England that bars the way to the practical realization of Nazi dreams of empire.

In overwhelming the various European states, Germany has already won the right to their colonial empires. But so long as Britain remains unconquered, Germany cannot take possession —and time is fleeting.

The Nazis are aware of the lengthening shadows that will fall over their future unless the decision goes to them this winter. Each succeeding month will bring new and difficult problems, for while the swift knockout blow of the blitzkrieg gave Hitler speedy victories, it wrought such chaos that even the greatest German efficiency cannot turn the advantages gained to account, unless England is promptly subdued.

Unexpected difficulties encountered have been amplified by the delay in overcoming the English and can become increasingly intensified in the future by the effectiveness of the British blockade, which is completely bottling Germany up in Europe, and preventing her from reaching the export markets without which she cannot exist.

As Hitler said, Germany must export or die. Germany's industrial setup is based on a capital goods production with export probabilities of 33 1/3 per cent. Therefore, she cannot very well indulge in a "sitzkrieg" which would only result in catastrophe for her as the impotent center of a devastated and impoverished Europe.

The German system to function properly requires the efficient coordination of: 1—manufacturing capacity; 2—adequate sources of raw materials; 3—export markets.

The combined industrial machinery under Nazi control in Europe today gives (*Please turn to page* 702)

Wide World Photo

In London suburbs—crushing blows are not undermining morale.

Wisest Market Policy Now

Values remain under the spell of day-to-day changes in the war news. With no vital decision in the Battle of England yet indicated, we view the near term market outlook with caution.

BY A. T. MILLER

NORMAL standards of common stock values, long ineffective, become even more meaningless as the market increasingly derives its hope and fears from spot news of the Battle of England.

In seven consecutive trading sessions from Sept. 6 to Sept. 13, inclusive, the Dow-Jones industrial average declined 6.36 points. This was due to the intensified and continuous aerial bombardment of London. Considering the shocking nature of the news, the retreat in prices was both moderate and orderly. The volume of transactions decreased progressively on the reaction.

At this writing another week-end has passed without producing the long-feared Nazi attempt to invade England. Indeed, if we can accept at anything like face value the censored news reports from London, the British currently have the best of it in the air fighting. At any rate newspaper headlines giving this impression can be credited with providing the inspiration for rallying tendences in the market as we start a new week.

The problem confronting us in this article is curiously similar to what it was on August 31 when our last previous analysis was written. At that time the industrial average was around the 128-129 level and we made the following observation:

"At this writing the chances appear to favor further rally to within the 132-135 area of the Dow-Jones industrial average. Barring the ever-present threat of foreign news shocks, it might be readily possible for this objective, or an approximation of it, to be attained even before this analysis reaches the reader. In that case the technical risk of buying near a rally top and of being hung up through a subsequent reaction—whether caused by speculative profit-taking or by unsettling news—would be substantially increased."

As it happened, the rally high proved to be 134.10 and was made on Sept. 5. With the position at the present writing approximately 129, industrial average, the short term technical considerations, in our view, are again almost exactly as stated in the above quotation from our appraisal of a fortnight ago. Indeed, this may prove a bit too optimistic, for the current rally seems somewhat lacking in vigor—as if reflecting, on the one hand, caution in accepting favorable British news versions and, on the other hand, continuing grave reservations in investment and speculative minds while awaiting more decisive war events.

Certainly for the time being a favorable domestic business outlook and a high level of earning power for the great majority of corporations can be considered only negatively bullish. That is, without this support the market would, of course, be at a much lower level. As it is, stock prices—measured by the none too representative daily industrial average—are about mid-way in the 1935 price range, while business activity this year will average at least 35 per cent, and more likely 40 per cent higher than in 1935.

Actually, the rank and file of the market—whose position is reflected in our broad weekly index—is much lower in relation to business activity than this comparison implies. This index at the close of last week stood at 51. Its range in the depression year 1934 was between a low of approximately 45 and a high of 70. It is, therefore, much closer to the 1934 low than to the 1934 high, despite the fact that business activity is some 60 per cent higher than the average of 1934.

Because prices, on the one hand, are so low in relation to business volume, earnings and dividend yields, and because, on the other hand, investors and traders for months have been making psychological preparation against the worst possible war contingency, we doubt that another nose-dive anywhere near comparable to that of last May is possible and we believe even very bad news probably would find this market making a strong stand at or above the year's previous lows.

The outstanding technical fact, however, is not the pressure of liquidation but, as for weeks past, the extremely low level of investment and speculative demand. Whether the market level be 129 or 139 or 119, there can hardly be any really significant change for the better on the demand side until clarifying events wholly outside the field of business—and wholly apart from normal considerations—permit investors and speculators to believe

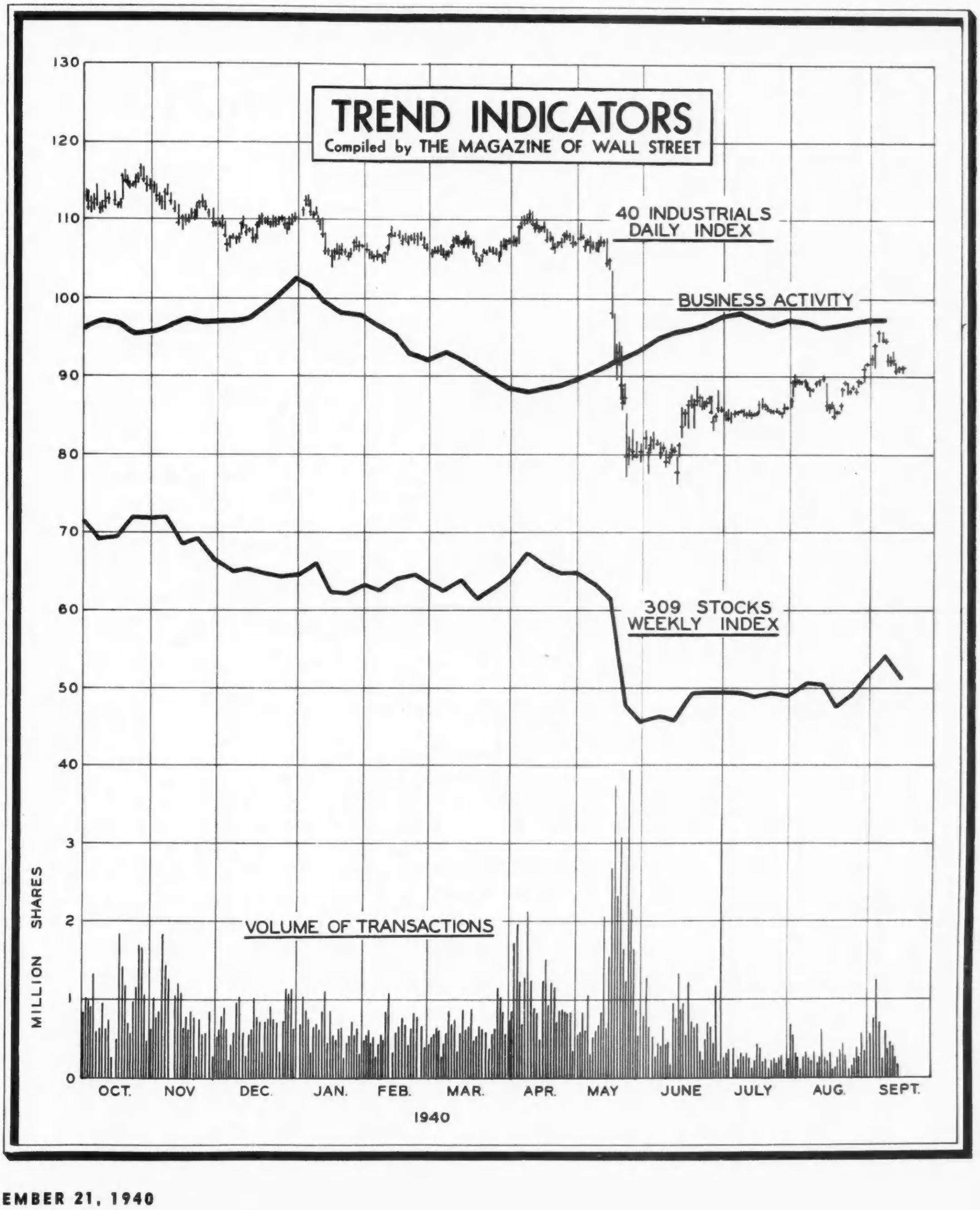
they can see at least a few months into the future. They cannot see any distance ahead now—not even a week, not even a day. Relative to the next broad move of the market, this is a more pertinent reality than any of the up-and-down trading wiggles of recent weeks.

As a matter of fact, price-earnings ratios of most leading industrials are not any lower now than they were in various stages of the World War inflation. Yet, if anything, the uncertainties of this war are more sobering than those of the World War period. To put it another way, the possible unfavorable implications are certainly more broadly comprehended by everyone than was the case a quarter of a century ago.

A few weeks ago it was the popular consensus that if England could hold out through September, that would tell the story at least for a long time to come. This time limit is growing very short. Possibly it will be really decisive and logically it would seem so—but preconceived patterns of the course of this war have been so universally at variance with subsequent facts as to force one to take the most plausible war experting with a grain of salt.

As of today we can only cling to the certainty that Britain is not yet licked and the hope that she will not be—but we can't see any distance at all around the corner. Accordingly, we continue to view the near term market outlook with caution.

—Monday, September 16.



Rise or Pause in Fourth Quarter Business?

BY WARD GATES

Wide World Photo

Government arsenal at Watervliet—one small segment of the armament activity which is the most dynamic force in the rising business cycle.

THERE is only one cloud in the business sky as we near the start of the final quarter of the year. It is the *possibility* of a collapse of British resistance under the most tremendous and savage aerial bombardment the world has ever seen.

As this is written the British are on the alert against the threat of imminent German invasion. Whether it will come, in the immediate future or later, we do not know. Whether, if attempted, it will succeed, we do not know. Whether the British can stand up under additional weeks of all-out bombing, if that proves to be the continuing pattern of the war, we do not know.

The uncertainty itself is starkly reflected in the security markets, but not in business activity. As we move ever faster into an armament-war economy the psychological and intangible factors, which normally influence business commitments and business planning, are overpowered by the insistent reality of rising orders—rising British war orders, rising Government armament orders and rising civilian orders under the stimulus of a record level of consuming demand.

Hence continuing uncertainty as to the outcome of the Battle of England will not affect business volume. On the other hand, deplorable *certainty*—in the form of conquest of England—would definitely affect fourth quarter business for the worse; affect it to the extent of a fairly sharp, although temporary, reaction.

British war orders in excess of $2,000,000,000 have been placed with American industry. Although information on deliveries to date is fragmentary, the bulk of this business remains in the paper stage awaiting future manufacture. If British buying suddenly terminated, what would happen? It is easy enough to say that these orders, or the greater part of them, would be assumed by the United States Government in furthering our own armament program. But manufacturers could not in all instances take that for granted and, even if they could, they would be largely in the dark as to terms. Hence there would be some temporary stoppages in production.

Moreover, any such development would be accompanied by a period of unsettlement in speculative commodity markets and this in turn would cause a temporary contraction in business buying of many types. Bringing the war crisis much closer to vital American interests, a British debacle could not be other than a severe psychological shock in all around effect. It therefore would react unfavorably on consumer demand, especially demand for non-essential durable goods.

The outlook, of course, is entirely different if we assume that Germany will not win the war in the early future or any time this year. The rest of this article is predicated on that assumption.

The dynamic business factor is the combination of the American armament program and war demands. This stimulus is not merely an addition to normal civilian

demands. It directly and indirectly increases those demands through increased activity and payrolls in the capital goods industries, the expansion forces spreading out through the entire economy including consumer goods of all kinds, transport, utilities, services, etc.

This is the most powerful upward spiral of economic activity that we have had since the booming years of the '20's. Indeed, the indicated physical volume of business over the next three months is virtually certain to set a new all time high quarterly record. Moreover, on the assumption of continuing war, this spurt— unlike the advances in the fourth quarters of 1938 and 1939—will not be followed by any significant let-down. As now projected, the armament stimulus is not a matter of months but of years. It will be more powerful, in direct effect, in the fourth quarter than it was in the third quarter, more powerful in the first quarter of next year than in the final quarter of this year, more powerful in the second quarter of next year than in the first quarter.

What the current monthly rate of British buying in this country may be is impossible to determine. It is a wholly reasonable surmise, however, that the pace must be increasing. Considerable damage is unquestionably being done to British industrial facilities and the British can hardly be so foolish as to assume that further damage will be escaped. Hence they have compelling reason to assure greater supplies of foreign war goods. Therefore the writer hazards the opinion that their American orders must now be at a rate above the $2,000,000,000 total of the first year of the war, constituting a major supporting force in the fourth quarter business picture.

Steel exports to Great Britain alone in August are estimated around 600,000 tons, a jump of 50 per cent over July. An exceptionally high export rate will continue. It accounts for so substantial a percentage of total current steel activity that any sudden cessation of British demand would automatically produce a sharp dip in the operating rate.

From present indications U. S. national defense spending in the fourth quarter should average at least $200,000,000 monthly, and it may be moderately more than this. This is by no means the full measure of the stimulus, however, for the placement of large armament orders—even before a dollar of Federal money is disbursed—assures business enterprises of future volume and thereby sets in motion increased business spending on forward commitments.

For example, on Sept. 9 the Navy announced award of contracts amounting to the vast total of $3,861,053,312 for 200 warships. These ships will not be completed for a long time to come, but the preparatory expansion of shipyards and the cumulative expansion in actual shipbuilding will involve a large amount of materials and labor for an indefinite time.

An illuminating example of what armament orders can mean to individual enterprises—even very large ones—is provided by August bookings of the Westinghouse Electric & Manufacturing Company, the figure being a new all-time monthly high with Government orders of $36,000,000 accounting for about 63 per cent of the total of $57,352,054.

As would naturally be expected, the sharpest fourth quarter gains, compared with a year ago, will be in the capital goods industries. Although new orders for capital goods receded moderately in July and August from a high June level, their average for the past two months was well above the highest point reached in any month of the active fourth quarter of 1939 and in September to date they have again turned sharply upward. Thus there is not only a large backlog of capital goods orders on the books of industry, but a current renewed expansion of this backlog.

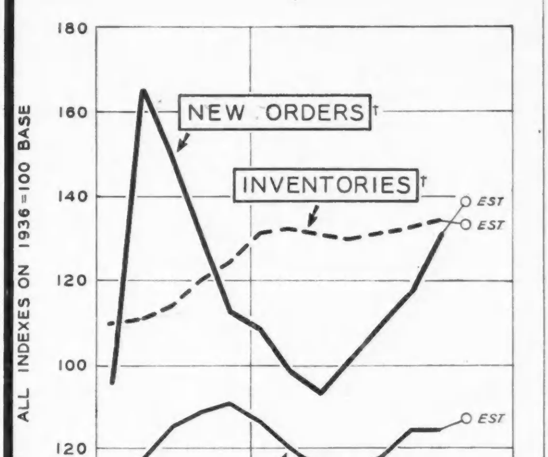
Business buying in the field of consumption goods has for some weeks been well under the indicated level of consumer demand, as reflected in general merchandise trade. With retail merchandise inventories low in relation to sales, this lag has to be made up. Indeed, new orders have already started to rise briskly; and this primary buying movement, judging by past habits, as well as by the continuing record level of total retail trade, should last at least several weeks.

Activity in Durable Goods

New orders in the field of consumers' durable goods are running not only at a new high level for the year, but also well above the peak of the Spring of 1937. Activity in motor production, now in the period of rapid seasonal expansion, will figure heavily in good fourth quarter business.

Contract awards for industrial construction—with Federal financing of new armament projects figuring largely in the picture—have for some time been at the highest level since 1929. Allowing for seasonal factors, residential contract awards during the summer were not only far above a year ago, but also above the recovery peak of early 1937; and they currently continue to point higher.

Unless untoward war developments interfere, it can thus be said that the stage is nicely set for a consider-



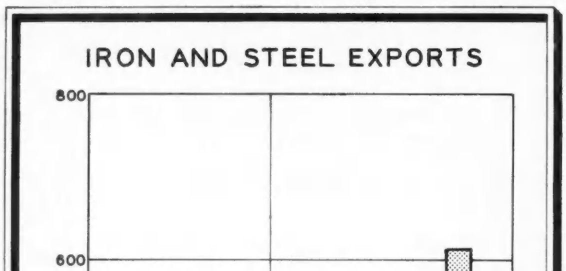
SOURCES: FEDERAL RESERVE BOARD*
NAT. IND. CONFERENCE BOARD†
AUGUST ESTIMATES BY THE MAGAZINE OF WALL STREET

able upturn in aggregate industrial production between now and the year-end; and it may quite possibly be of rather spectacular proportions.

Venturing a specific forecast—still assuming England manages to hold out—the writer estimates fourth quarter business in terms of the revised Federal Reserve Board index at an average of about 129-132, with the trend up to a December high probably around 136-138.

For comparison, the highest point reached in the initial war spurt in the Autumn of last year was 126 in December, making an average of 124 for the fourth quarter. The 1937 high was 121 and represented the previous recovery peak. The 1929 high was 114. If near term war developments do not produce a set-back, business volume for the year as a whole should average somewhere near 122, which compares with 108 last year, with 113 in 1937 and with 110 in 1929. This index is not adjusted for population growth, but nevertheless it does faithfully show that total economic activity is at a boom level—the stock market to the contrary notwithstanding.

Behind these averages of economic activity there has been a very significant shift in the relative positions of durable goods and non-durable goods. For instance, the 1933-1937 recovery cycle was in the main paced by the consumer goods industries, cumulative revival in these fields eventually bringing about a rather brief period of capital goods activity near the culmination of the upward cycle. Whereas the composite index averaged higher in 1937 than in 1929, the index of non-durable manufactures for that year was 14 per cent above the 1929 average, but the index of durable goods manufactures



was more than 8 per cent under the 1929 average.

In the present recovery cycle the shift of emphasis to capital goods activity became pronounced in the fourth quarter of last year, and it is not a transient phenomenon. Due to recession in the early months this year, it is out of the question that the index of durable goods manufactures for 1940 can top the 1929 average, but for the fourth quarter it will almost certainly be above the 1929 average and it may equal or exceed the best quarterly figure of 1929, which was 139.

This is not by any means to imply that consumer goods industries are now lagging. As is always the case, in quarterly comparisons or comparisons with a year ago, changes up or down are less spectacular than in capital goods. Inclusive measures of general merchandise sales, covering chain as well as department store distributors, show total demand now some 10 per cent higher than a year ago.

Spurt in Retail Trade

There has been a rather sharp improvement in retail trade since the start of September and, while it is partly due to favorable weather conditions over most of the country during this period, it also unquestionably reflects increasing payrolls in industrial centers, especially areas feeling the stimulus of large armament orders and armament plant construction or expansion.

This will probably be the first year since 1929 within which both general merchandise trade and the output of the steel industry establish new all-time highs—the former representative of activity in consumption goods, the latter representative of heavy industry and durable goods generally.

The August output of steel ingots was the third highest monthly figure on record, having been slightly exceeded only in October and November of last year. If the August production rate is approximately maintained over the rest of the year, the 1940 output will be around 64,000,000 net tons and thus will exceed the 1929 high water mark of 62,132,445 tons.

At this writing the steel operating rate is 92½ per cent of capacity and it is to be doubted it will rise appreciably higher, since incoming orders have shown a slight recession from the August levels and there probably has been considerable production for inventory. Emphasizing the importance of war demands, export tonnage in July—latest month for which official figures are available—amounted to approximately 20 per cent of total production, with the bulk of shipments going to Great Britain. Obviously, therefore, whether the industry makes a record production high or fails to do so may depend upon the unpredictable contingency of what happens to England over the near term.

Going into the fourth quarter, the outstanding fact is that the upward economic spiral is more broadly based than at any time since the long boom of 1923-1929. There are no important laggards. Capital goods, consumers' durable goods, retail merchandise trade, construction, freight movement on the railroads and highways—all are pointing higher, the various expansionist forces feeding on each other.

In short, it bids fair to be the busiest, but not the most profitable, fourth quarter on record.

Can English Money Outlast German Food and Oil?

The Economic Factors Which Shape the Strategies of War

BY V. L. HOROTH

If in the coming weeks of Indian Summer, Great Britain is able to withstand an almost continuous pounding of German bombers and even repel invasion in any form—an assumption we make for the purpose of this article—the first phase of the siege of the fortress of Great Britain may come to an end. By what will this be followed? Obviously nobody knows. The first year of the war brought many surprising developments in the way of new military technique, the unexpected genius of Hitler's moves, and the unforeseen collapse of the French Army. And the coming year may have in store just as many unexpected events, as a consequence of a serious food shortage on the Continent, social unrest in Central Europe and the Balkans, frailty of Russo-German relationships, and, above all, more active Anglo-American cooperation to almost any length.

Nevertheless, an appraisal of the changes that took place during the first year of the war in the military and economic position of the belligerents, with the Axis Powers on the one side and the British Empire on the other, points to a reorganization of battle lines that may carry the war to non-European sources of foodstuffs, raw materials, and oil. This is principally because after the collapse of France the war changed from a struggle for a new balance of power in Europe, into a struggle for the control of the world by the Nazi dominated Continent of Europe.

Hence, in the opinion of the writer, a guess that the siege of Great Britain may be followed by a period having the outward appearance of a stalemate, during which the belligerents will try to paralyze each other, with the odds slowly turning away from the Axis Powers, has a fair chance of coming true. It may be a period like that which followed the Polish campaign and ended with the invasion of Norway, but marked by more active raiding of ports and shipping, by attempts to lower morale by bombing of civilians, and by preparations for the non-European military campaign.

Wide World Photo

The Bank of England

Loss of the Battle of France last June made out of Great Britain a sort of fortress, lying astride the Atlantic sea routes that lead from Europe to overseas supplies of food and raw materials. During the past year, and especially since June, the British people have accomplished a tremendous job in fortifying their islands, in building an army (now about 2,000,000 strong), and in mobilizing industrial plant and labor forces for military purposes. The problems connected with the switch from peace to war production, however, are far from being solved. They have accounted for many industrial bottlenecks (lack of skilled labor the most important) at the time when the restrictions on consumption goods industries released large number of workers.

These apparent obstacles in adapting plant capacity and labor force to war production, combined with the loss of nearby continental sources of food and raw materials (iron ore), and the harassing of shipping and ports, has more than ever made Great Britain dependent upon (1) ability of the British navy to keep the overseas lanes safe for shipping; (2) industrial plants of America; and (3) raw materials, foodstuffs and lately also the industrial plants of the Empire.

According to the London Economist, shipping capacity is of no vital concern at the present time, in spite of the fact that a greater dependence on overseas supplies has lengthened the average voyage per vessel and that intensification of attacks on convoys has greatly increased the losses. Up to June, the average merchant shipping lost per week was slightly below 20,000 gross tons. Since then it has increased to 53,000 gross tons per week (89,000 tons including neutrals), representing an annual loss rate of roughly 2,800,000 (4,500,000 tons including neutrals) gross tons as compared with the British annual shipbuilding capacity of about 1,250,000 tons. This does not include the shipbuilding capacity of the Empire countries, India in particular, where ship construction is being developed as part of a greater plan for the development of secondary industries.

Britain Controls Half World's Ships

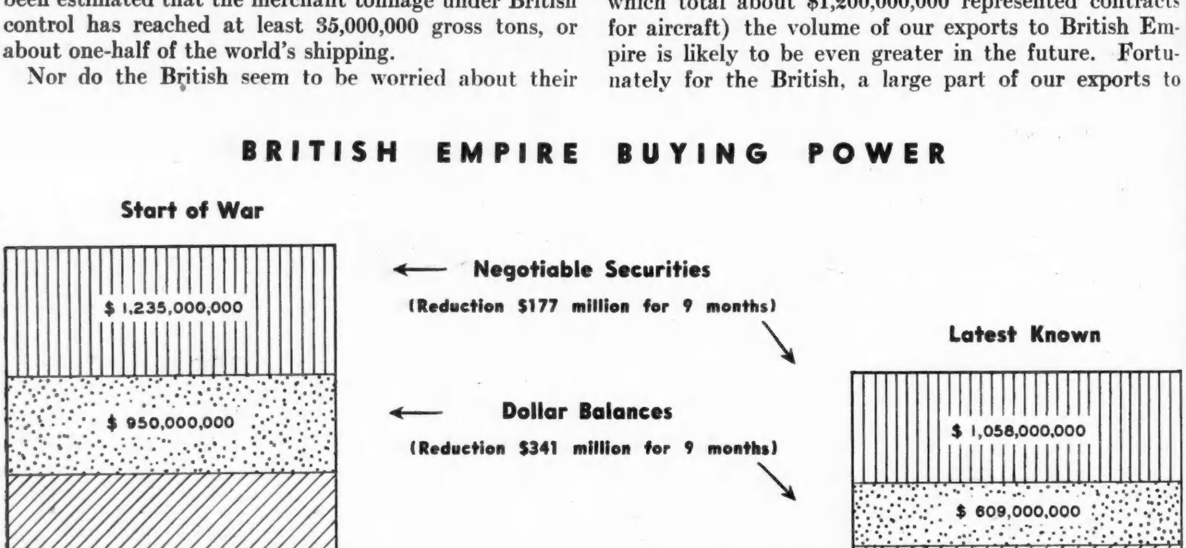
British shipping losses during the first year of the conflict were approximately 2,000,000 gross tons, according to the Minister of Shipping, Ronald Cross, or approximately 10 per cent of the British commercial tonnage of 21,000,000 gross tons at the outbreak of the war. The total available tonnage was, however, substantially augmented by the accession of the greater part of the Norwegian, Belgian and Dutch merchant fleets. It has been estimated that the merchant tonnage under British control has reached at least 35,000,000 gross tons, or about one-half of the world's shipping.

Nor do the British seem to be worried about their port facilities, although German raids have made many southern and southeastern ports unusable. Evidently the carrying capacity of the railroads has been raised, and at the same time considerable flexibility has been achieved in transferring traffic, dock labor, and repair gangs from one port to another on short notice.

The extent to which Great Britain will be able to rely upon American production will depend, above all, upon the size of her means of payment until either a change in our present laws or in our attitude will permit her to borrow in our capital market. A rough estimate made by the Federal Reserve Board placed the readily available British resources, usable in this country, at the time of the outbreak of the war at $3,300,000,000, and those of Canada and other Empire countries at about $1,600,000,000. In addition, as will be seen from the accompanying chart, the United Kingdom and the British Empire countries had direct investments, difficult to liquidate, of roughly $1,500,000,000 in our railways, mines, oil wells, etc.

On the basis of our June and July trade returns, Great Britain is importing our goods at the rate of nearly $1,200,000,000 per year, while the entire Empire is absorbing our goods at the rate of about $2,500,000,000. In view of the fact that some $2,000,000,000 worth of goods has been ordered here by the British Purchasing Commission alone during the first year of the war (of which total about $1,200,000,000 represented contracts for aircraft) the volume of our exports to British Empire is likely to be even greater in the future. Fortunately for the British, a large part of our exports to

BRITISH EMPIRE BUYING POWER



Great Britain is normally paid for—through a triangular exchange of goods—by our imports from the British Colonial Empire, and also from the Dutch and Belgian Colonial Empires now included within the pound sterling area. Because of our defense program, our purchases from these huge Colonial areas—running in June and July at the annual rate of about $1,400,000,000—are also likely to expand.

Assuming that the other payments between the United States and the British Empire roughly offset each other (American travel expenditures in Canada and earnings of the British merchant fleet about cancel the debt services on our investments) it would appear that the unfavorable merchandise balance of the British Empire (including Dutch and Belgian Colonial Empires) with us is at present around $1,100,000,000. About $600,000,000 of the above amount is settled by shipment of newly mined gold to us and for the remainder, some $500,000,000, the British Empire has to draw on her gold reserves and dollar balances in this country or to sell some of her negotiable securities here. Although the drain upon Great Britain proper may be somewhat greater than the above figure indicates, the British gold reserves and dollar reserves might last at the above rate *for at least four more years*—leaving practically intact dollar securities and other investments. All this may offer some explanation why the British had slowed down the liquidation of their American securities to only about $5,000,000 in April and May. According to the U. S. Treasury, Great Britain reduced her dollar balances here during the first nine months of the war (the figures are published with a three-month delay) by about $240,000,000 and her negotiable dollar securities by about $150,000,000. Canadian dollar balances and securities were reduced by $101,000,000 and $25,000,000 respectively.

Wide World Photo

Fuel shortages in the conquered nations are indicative of Germany's oil pinch. This Danish business man is using a novel taxi.

If the war lasts long enough, many of the industrial products for which Great Britain has to pay us in dollars will be eventually obtained from the British Empire countries for pounds sterling. At first slow in developing, the aid extended by the Dominions and Crown colonies has been accelerated since last June when the seriousness of the situation was realized. For military reasons, too, Great Britain has been eager to spread the manufacture of war material throughout the Empire.

The Dominions, Canada, Australia, New Zealand and the Union of South Africa—the last in the process of building a sizable steel industry—are already able to produce most of the war materials such as small arms, ammunition, bombs and depth charges for their own forces. Canada and Australia make also their own aircraft and military vehicles, of which the surplus is now going to the mother country. But above all, India, according to reports of the London Economist, is becoming a veritable arsenal, with well established iron and steel industries, electric and locomotive plants, and numerous other lines of manufacture many of which have been introduced since the war started. She is already supplying nine-tenths of her requirements of war materials, and undoubtedly will play an important role in equipping and supplying the British Army in the Near East, thus relieving the pressure on Great Britain.

Hence Great Britain, unless her industrial plant is shattered by bombings or attempted invasion or her sea power shaken, seems to have sufficient resources and dollar balances to defend herself for several years to come. Moreover, her chief weapon, the blockade, has not been weakened. Because of this, Germany—who unquestionably is stronger in a military way now than at the outbreak of war—is nevertheless vulnerable in spots and likely with time to lose some of her present advantages, won as a result of the conquest of the continent.

Conquest and loot, two essentials necessary for the survival of Nazi-Fascist economies, have provided Germany during the first year of the war with a wealth of military equipment of several armies, sizeable reserves of foodstuffs, raw materials and oil, and have also greatly enlarged her industrial plant and provided a cheap source of labor in the form of at least 3,000,000 war prisoners. The enhancement of her industrial strength can be best seen from the growth of steel capacity under her control; it is now about 45,000,000 tons compared with 27,000,000 tons a year ago. Moreover, the occupation of French and Luxembourg iron ore deposits and the virtual monopoly of the *(Please turn to page 701)*

Happening in Washington

Labor and National Defense

BY E. K. T.

MAXIMUM production of defense materials by American industry without any relaxation of working standards or interference with the rights and privileges of organized labor is the announced goal of the administration, and so far the Republicans have given no hint that they would adopt a different policy if given charge of the government.

If the defense emergency is such as to require sacrifice and cooperation from every element of the nation, it would seem to follow that labor might well be asked to give up something, such as high over-time rates beyond a short work-week. But nothing of the sort is in the cards. The administration is pledged to retain everything that comes under the heading of social gains, and attacks in Congress and elsewhere against the various New Deal labor laws are much less now than before the defense program started.

The most obvious explanation is the current election campaign. Few politicians care to campaign on a platform of lower wages, longer hours, and fewer rights for the workingman. Neither do they want to be charged with that attitude by suggesting that labor laws be modified or organized labor be restricted. So nothing will be done and very little will be said on the subject until after the election.

But beyond the purely political considerations, the administration has some plausible arguments for its stand, particularly with respect to the maximum working week. It is contended, and so far without successful refutation, that a short work-week gives greater total production than a long one. World war experiences of the U. S. and England and present war experiences of England, France and Germany are cited to prove this point. The fall of France cannot be attributed to the 40-hour week there, it is declared, because that was rigid, accompanied by other restrictions, and was in effect for only two years. While most labor economists will agree with this thesis within limits, it can be argued that the instances cited, with the exception of the French, involved a "short" work-week somewhat longer than the 40-hour week scheduled to take effect next month in all interstate industries under the wage-hour law and now in effect on all government contracts under the Walsh-Healey act.

There is also the argument that with so many unemployed it is unwise to extend the hours of present workers. This argument will break down if it develops that sufficient new workers cannot be found for large groups of important skills necessary in defense production. There is much current talk of shortages of skilled workers, but careful surveys show that outside of the aircraft, shipbuilding and machine tool industries there are actually very few labor shortages at present. A few months from now, when defense industries are hitting a higher pace, a great many acute shortages may develop, but the government is now cooperating with the industries concerned and with trade and vocational schools in a serious and well-planned apprentice training program which has a fairly good promise of meeting these demands as they arise. Some labor unions have been to blame for the present scarcity of skilled workmen because during the depression they held apprentice training to a minimum, but apparently they are cooperating in the present training program.

Supporters of the 40-hour week point out that a plant can operate any length of time provided time-and-one-half is paid, but these premium wages for overtime increase production costs enormously if continued long. N R A experience showed that most workmen are not at all averse to working 45 or 48 hours per week if they get overtime beyond 40 hours, and would rather do this than have the plant hire more men, and this factor will operate against any change in the law even though it could be proved that a work-week longer than 40 hours would not decrease production or injure the health of employees.

The statutory minimum wage, now generally 30 cents per hour, is not being criticized as a hindrance to defense and probably will not be, since few defense industries have much use for people who aren't worth that much. The Walsh-Healey act is a bone of contention; it complicates things for government contractors because it stipulates an 8-hour day instead of a 40-hour week, involves a complicated prevailing wage operating above the wage-

hour law minimum, and requires extra record-keeping. There is little economic justification for it now, but by the same token as it becomes less of a factor it meets less opposition and since organized labor finds it a useful political weapon it probably will be kept.

The Wagner labor relations act could hamper defense production greatly, but it would not do so with a few legislative changes such as those which passed the House but won't get through the Senate this year, nor with further changes in its administration along the lines already started. Strikes, labor disputes, and interminable wrangling over collective bargaining contracts, particularly when not involving wages and hours, could cripple the preparedness program. To forestall this the U. S. Conciliation Service has quietly launched an intensive program of stopping incipient disputes in key industres before they attract public attention or get to the stage of a threatened work stoppage. This program is having results and has the cooperation of many labor leaders who know what the public reaction would be to extensive strikes in defense industries.

The National Defense Advisory Commission, after considerable internal discussion and reputedly under Presidential pressure, has officially stated the policy that the defense program should comply with all existing labor laws. It also has a committee at work to prevent jurisdictional strikes growing out of the A.F. of L.-C.I.O. feud, also backed by White House pressure.

It is safe to predict that there will be no changes in labor laws for many months. The long-range view depends on devlopments. Only if severe labor shortages occur and defense costs rise unreasonably thereby will the work-week be lengthened or the overtime premium reduced. And only if organized labor takes advantage of the Wagner act to squeeze employers and slow down defense production will that act be drastically amended or new legislation limit strikes or force arbitration.

CAPITOL BRIEFS

Business boom as result of preparedness program is discounted by leaders in most industries. Some lines, like aircraft, machine tools, and shipbuilding, will have big backlogs, but in majority of industries defense orders will increase production only slightly above normal. Of course the huge spending widely dispersed among durable goods industries ultimately will increase all business activity, but many executives are cautioning against planning for a big boom based on defense orders alone in lines producing not strictly military goods. They may, of course, be wrong.

Tax bill delay, while disappointing and causing some uncertainty, has not actually delayed plans of most important corporations to expand plants to fill defense orders, since they have faith that views of defense commission will prevail, if not in this bill then early next Congress. Some smaller companies are hesitant, but a careful private survey showed no basis for wild Congressional charges that business is holding back to get the kind of excess profits and amortization tax bill it desires. Only possible substantiation was discovery of three sub-contractors who declined to bid on defense orders because they were working to capacity on British orders and did not care to come under Vinson-Trammell profits limitation act.

Wage-Hour law is having its first real difficulties in court. One federal judge has ruled that overtime is due only employees getting minimum wage, while several employers are contesting right of Labor Department to inspect records. Among latter are newspapers who claim department is infringing freedom of the press. Recently Wage-Hour Division has adopted a more reasonable enforcement policy and is contemplating other administrative changes which will help business.

Wide World Photo

Rep. Howard W. Smith of Va. (left) and Wm. M. Lieserson of the N. L. R. B.

Madden's post on N L R B probably will be left vacant by Roosevelt until after election unless Willkie challenges him to make an appointment. Reappointment of Madden or appointment of almost anyone else would cause violent opposition from some quarters, but by leaving Smith and Lieserson deadlocked the Board will be unable to do much and so will keep out of the public eye and will not be (*Please turn to page* **704**)

New Cyclical Leaders

Companies and Industries Exceeding Past Peaks

BY JOHN LLOYD

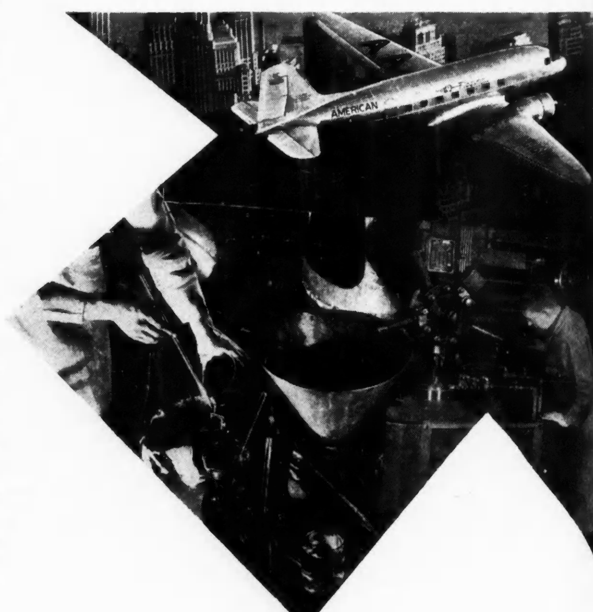
THERE has seldom been a time when so many industries and individual companies could reckon up their results for the year at the eight-month mark. The two best-remembered occasions when it was tempting to try it—1937 and 1929—saw swift turns in the early Fall which changed the whole year's outcome. But today the investor is faced with a wide spread of inter-related special situations which for the short term at least are practically underwritten by the armament program or other Government activities.

It is true that this factor is not one to be relied upon blindly for the practical purposes of investment. Psychological shocks such as the fall of England or this country's entry into the war could affect earnings, as well as stock prices, if severe enough. Sudden and vicious increases in tax levies might leave the rate of business as expected, but pull profits down far below current estimates. Also, so far as the investor is concerned, it is necessary to look considerably further ahead than the end of the year, however neat that distance may be as a means of establishing comparisons with past periods.

But this is only to say what is freely admitted—that the hazards of investment are present at all times, even when short term predictions as to earnings are extraordinarily feasible. Common stocks run the common risks, the difference only one of degree whether they are selling at three or thirty times current earnings. Opportunities that stand out with exceptional clarity today offer no guarantee that there may not be better tomorrow, any more than that they will remain available indefinitely.

The cyclical investor—the man whose policy it is to own stocks only a part of the time and who aims at the major movements of prices, as well as at the income to be obtained—recognizes two main types of securities attractive to him. One is the volatile class, promising large profits if bought at the right time. The other is the growth division which loads the dice in his favor because even if he buys at the wrong time he has a good chance of riding through to eventual success. For the latter he usually pays a premium; and it is with the latter that we are concerned, partly because the premiums demanded on such issues seem smaller than usual at present, and also because the element of growth which can always be identified in past records, is now definite as to the immediate future.

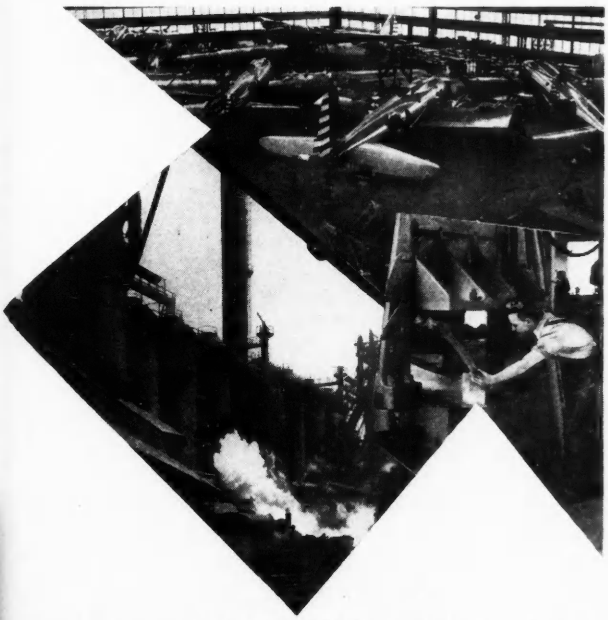
Not many industries which have proven themselves leaders of the last decade qualify as second-term candidates for the 'forties. Chemicals—of course. Then aviation manufacturing and the airlines, both of them just recently come into their heritage. Machine tools has been a highly cyclical business, but the indications are that for some time to come this division of industry will be overworked in relation to the level of general activity. Other types of machinery and equipment, including electrical, must be included among the nominees. Specialty steels must naturally follow, along with producers of the raw materials for steel alloys—in many cases the chemicals again. Shipbuilding would ordinarily not be dignified by a place among the growth industries of the past and coming decades, but it has practically enforced recognition because of the uptrend which has



been in progress for some time and the future which stretches a considerable distance ahead. Orders now on hand will take many years to fill, and after that there is the chance that replacement of the commercial fleets lost during the war will prolong activity in the shipyards.

The search for growth need not be confined to these few industries, although the hunting is best among them. It can be extended into containers, into such fields as soft drinks and retail stores, where certain companies give evidence of continued success in outdistancing competitors. As will be seen from the selection on the following page, however, it has been thought wisest to stay generally within those industries where the favorable factors are not confined to one or two companies alone.

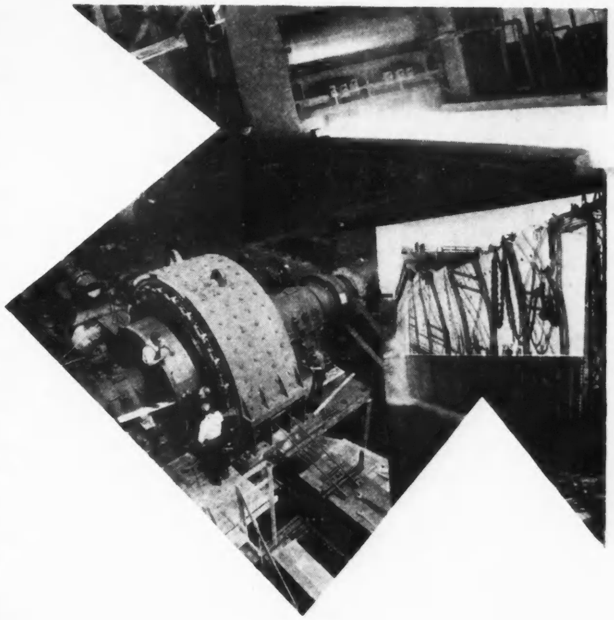
The first requirement of a leader is that it show proof of leadership, potential or realized, and the best is the record of the recent past. Every one of the companies listed in the table is estimated as earning more this year than last, more than in the previous peak year 1937, and more than in the boom of 1929. Sixty-three per cent of those for which comparisons are available have sold at higher prices this year than in 1929, seventy-eight per



cent have topped their 1937 highs, and seventy-five per cent have broken through their highs of last year. It is completely obvious that an investment in the group as a composite at any time in the past decade would have been successful; yet they are chosen primarily for their rate of progress in the present and over the immediate future rather than for past achievements alone.

Out of the twenty-eight stocks listed, sixteen are breaking all records of 1929 and since, as to estimated earnings, and twelve are breaking records in both price and earnings in 1940. And there does not appear among them a single issue which could not, given favorable conditions, break its 1940 mark by a substantial margin in 1941.

Coming down to the practical question of price, the relationship of earnings to the highs for 1940 is a revealing one. These stocks sold as a group at a maximum of 11.3 times the earnings estimated for the year, or at



about the level that a colorless medium grade stock would sell in an ordinary market. Only last year the composite price-earnings ratio based on the highs was 17.0, or fifty per cent greater. In 1929 it was twice as large, after eliminating the extremely high ratio of New York Shipbuilding. If the ratio were based on current prices, now substantially below the 1940 peaks, it would be placed under that of the general market averages a year ago, despite the fact that the stocks in the table command more than average respect for their growth possibilities.

While on the subject of price-earnings ratios, it is interesting to note that two issues—Monsanto Chemical and Owens-Illinois Glass—show higher ratios this year than they did on a comparable basis in 1929, and Noblitt-Sparks has equalled that mark. It happens that only Monsanto Chemical was highly rated a decade ago and that along with Dow Chemical it has enjoyed the distinction of selling at better than twenty times earnings this year. Hercules Powder has also been a consistently well-regarded stock, but Union Carbide has slipped over the decade, its price-earnings ratio at the 1929 high having been 36, at the 1937 high 23, at the 1939 high 14, and this year, at the high, 11.

The shipbuilding stocks, of course, are a resurrection rather than a new growth. Their ability to show profits this year greater than in 1929 or 1937 is largely due to the fact that those were not good periods for the industry. Furthermore, it can hardly be doubted that the shipyards will again in the future go through the experience of a long slump in their business, a slump probably independent of the course of general industry. But because they live up to the requirements of growth over the last decade and of current progress, because their orders extend into the future as far as eleven years, their inclusion is logical.

The great majority of the companies listed here will face a major problem in whatever sort of excess profits tax is finally enacted. Their earnings are extremely large in proportion to invested capital and also as com-

pared with profits over the last four years. A penalty is now placed on growth, which these issues must expect to pay and which accounts in part for the relatively small premiums placed upon them in market prices. It is quite conceivable that a number of them may show substantial increases in volume and in operating profits next year, yet fail to carry the gains past the tax-collector into the net profits column.

One way to look at the problem is this. When a new and partially mysterious discouraging factor arises in the stock market, the tendency is almost invariably to allow for it in greater degree than turns out finally to have been necessary. As the threat comes close and is turned into actuality, the discounts it caused are whittled down, until the handicap has taken its place among the factors taken for granted which always impede attainment of the perfect state of things. As time goes on the market will learn more about this particular danger and presumably assess it more accurately, then later will take it as a matter of course. Eventually there is the likelihood of a return to the normal methods of taxation. Every month must bring closer the time when the market will think more about future earning power and less about temporary handicaps; disadvantages brought about not by a weakness in a particular company or industry, but by forces outside their control and affecting all progressive situations in common.

A word of caution as to the earnings estimates shown is necessary. While operating results can be forecast with unusual confidence for this time of year, the very nature of the times raises the possibility of year-end charges against earnings for specific purposes. Also, of course, the shadow of the excess profits tax being decided upon in Congress may grow larger and the levy may strike more heavily at some or all of these companies than is now anticipated. However, all estimates represent an attempt to be realistic rather than optimistic.

The investor presented with the proposition of buying such a composite stock as this group has a big advantage over the usual opportunity in single special situations. He is confronted here with a general market aberration which may persist, grow worse, or be cured within a relatively short time. He is assured by the very prevalence of such discounts on progress in individual companies that they are due to a broad, fundamental cause, not to any error in his judgment or to an overlooked point in sizing up a particular issue. In 1932 the speculation was on whether the depression was to be permanent, whether the economy was ever to come back. Today it is a speculation still, but simply on whether growth—past, current and immediately ahead—has run into a stone wall that is really impenetrable.

GROWTH—PAST AND CURRENT

▲—Exceeded in 1940. **▼—Current figures do not exceed.**

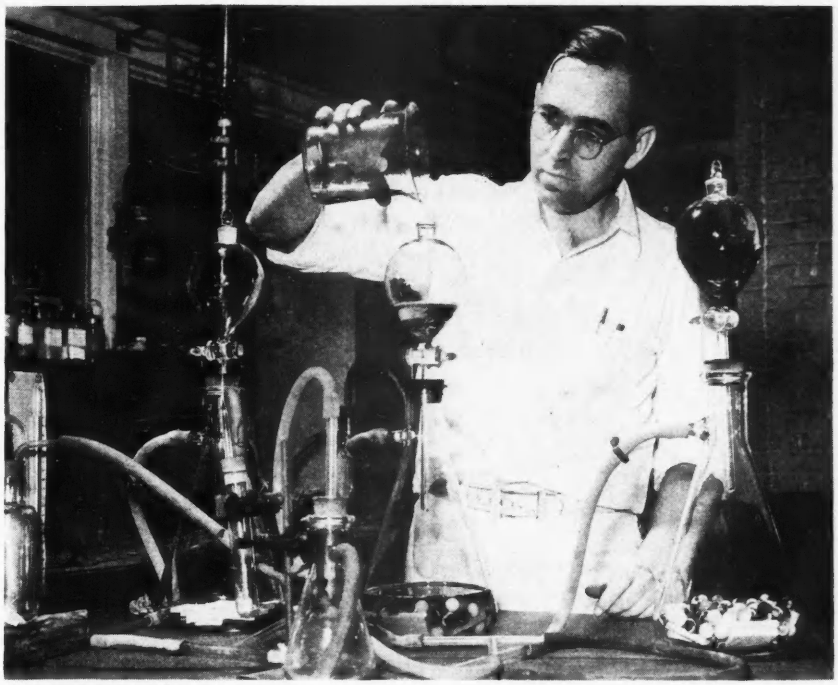
	1929		1937		1939		1940		Probable Term of Continued Improvement Barring Major Depression
	Earnings	Highest Price	Earnings	Highest Price	Earnings	Highest Price	Estimated Earnings	Highest Price to Date	
Amer. Airlines	....	....	def. ▲	32⅜ ▲	$4.15 ▲	47 ▲	$7.00	75	Extended.
Amer. Cyanamid "B"	$1.56 ▲	80 ▼	$2.09 ▲	37 ▲	2.07 ▲	35¾ ▲	2.70	39⅞	Extended.
Bath Iron Works	....	....	.05 ▲	11⅞ ▲	1.58 ▲	12⅛ ▲	3.25	16⅝	War.
Bendix Aviation	3.65 ▲	104¾ ▼	1.08 ▲	30½ ▲	2.14 ▲	33¾ ▲	4.50	36⅜	Cyclical—War.
Bower Roller Bearing	.84 ▲	18¾ ▲	4.07 ▲	35⅜ ▲	3.23 ▲	34¾ ▲	4.75	37¼	Extended—Cyclical.
Carpenter Steel (June fiscal year)	....	....	3.31 ▲	35⅜ ▼	.88 ▲	33 ▼	4.05	32¾	Cyclical—War.
Chicago Flex Shaft	1.48 ▲	17¾ ▲	6.23 ▲	77 ▲	8.80 ▲	79 ▲	10.00	83	Extended—Cyclical
Copperweld Steel	....	....	1.45 ▲	17 ▲	2.07 ▲	29½ ▼	2.25	25¼	Extended—Cyclical.
Curtiss-Wright	def. ▲	30½ ▼	def. ▲	8⅜ ▲	.39 ▲	13¼ ▼	1.50	11⅜	Cyclical—War.
Douglas Aircraft	1.19 ▲	45½ ▲	1.90 ▲	77¼ ▲	4.81 ▲	87¾ ▲	11.00	94⅞	Cyclical—War.
Dow Chemical (May fiscal year)	2.79 ▲	75¾ ▲	3.91 ▲	159¼ ▲	3.76 ▲	144⅝ ▲	6.65	171	Extended—Cyclical.
du Pont	6.99 ▲	231 ▼	7.25 ▲	180⅛ ▲	7.66 ▲	188½ ▲	9.75	189¼	Extended—Cyclical
Eastern Airlines	....	....	....	....	2.06 ▲	31⅞ ▲	3.00	44½	Extended.
Electric Boat Co.	def. ▲	18¾ ▼	.68 ▲	16 ▲	1.44 ▲	18¼ ▲	2.00	18⅜	War.
Ex-Cell-O	2.15 ▲	25 ▲	1.69 ▲	27½ ▲	2.21 ▲	25¼ ▲	6.25	34¾	Extended—Cyclical
Hercules Powder	2.98 ▲	65 ▲	2.97 ▲	92½ ▲	3.65 ▲	101½ ▼	5.00	100½	Cyclical—War.
Heyden Chemical	3.08 ▲	41¼ ▲	3.94 ▲	47½ ▲	5.99 ▲	68 ▲	7.50	92	Extended.
McGraw Electric	2.02 ▲	19¾ ▲	2.00 ▲	27¼ ▲	2.99 ▲	25½ ▲	6.75	29	Cyclical.
Monarch Mach. Tool	....	....	2.91 ▲	29¼ ▲	3.50 ▲	29 ▲	9.00	42½	Extended—Cyclical.
Monsanto Chemical	2.12 ▲	40½ ▲	4.40 ▲	107½ ▲	4.01 ▲	114¾ ▲	5.00	119	Extended.
N. Y. Shipbuilding	.32 ▲	34¾ ▼	def. ▲	15⅜ ▲	1.61 ▲	17 ▲	1.75	26⅞	War.
Noblitt-Sparks	3.60 ▲	25¾ ▲	3.88 ▲	46⅜ ▼	4.23 ▲	35 ▲	5.00	35⅞	Extended.
Owens-Illinois Glass	2.40 ▲	44¾ ▲	3.51 ▲	103¾ ▼	3.17 ▲	70 ▼	3.60	64⅝	Extended—Cyclical.
Sperry Corp.	....	....	1.46 ▲	23¾ ▲	2.71 ▲	51⅞ ▼	3.50	47	Extended.
Square D	1.45 ▲	20 ▲	3.09 ▲	48⅜ ▼	3.02 ▲	34⅝ ▲	4.50	40½	Extended—Cyclical.
Union Carbide	3.94 ▲	140 ▼	4.81 ▲	111 ▼	3.86 ▲	94¼ ▼	5.75	88⅜	Extended—Cyclical.
United Aircraft	....	....	1.52 ▲	35⅛ ▲	3.53 ▲	51 ▲	5.00	53⅝	Extended—War.
Van Norman Mach. T.	....	....	3.23 ▲	33 ▼	2.89 ▲	32 ▼	6.00	30	Cyclical—War.
***Average price-earn. ratios**		**27.4**		**29.0**		**17.0**		**11.3**	
***Adjusted price-earn. ratios**		**22.2 (a)**		**20.0 (a)**		**17.0**		**11.3**	

* Based on year's high price and excluding deficits. (a) Excluding Bath Iron Works and N. Y. Shipbuilding, which distort ratios.

WAR BABIES

PEACE BABIES

ARMAMENT BABIES



Courtesy Monsanto Chemical

One of Monsanto's chemists conducting tests with pentachlorophenol.

Today's Opportunities in Chemicals

BY JESSE J. HIPPLE

Just about twenty-five years ago this country was startled and eventually jubilant over the appearance of a German submarine in Newport harbor. The U-boat Deutschland had run the British blockade with a cargo of coal tar dyes and other then rare and scarce chemical products—perhaps as a gesture of defiance to the British navy—for the purpose of selling the shipment to Americans who were in crying need of such materials. That the Deutschland got her price for them is a matter of record. They were gobbled up at fantastic prices immediately they were exposed for sale.

Such a visit today might be equally startling but it is more likely that if the ship did come it would be to take home a load of chemical products in exchange for American dollars or their equivalent in gold for this country is now able to make more, and often better, dyes and other organic chemicals than Germany could ever produce. Indeed it is this country's advance in the science of chemistry that epitomizes our achievement of virtual liberty from dependence upon other than our own resources for most of the materials vital to our way of life and its preservation.

The growth of our chemical knowledge and production capacity in a short quarter of a century has literally been phenomenal. Twenty-five years ago we were emerging from our position as a largely agricultural nation and our chemical productivity was confined mostly to a line of simple products of an inorganic nature such as sulphur, copper salts and a few other items found either in their raw state in this country or easily prepared by simple manufacturing processes from such materials. At that time the Germans were the world's source of fine chemicals made from derivatives of coal. Today, possessing more recoverable coal than any other nation in the world as well as equally as vast quantities of many other raw materials such as petroleum, natural gas, cellulose, etc., the United States is not only able to supply its own needs with a hitherto undreamed of variety and quantity of simple and complex chemicals but also has a large enough exportable surplus to supply many of the wants of the rest of the world as well.

As might be expected, such self-sufficiency could not be achieved by the chemical industry were it not for the willingness of the various companies engaged in the business to spend considerable sums of money in research. While most of this research has been objective, that is to say directed toward a previously selected goal, much of the work has been in the realm of pure science from which nothing but additional knowledge was expected to be obtained. These expenditures, as late as last year,

Courtesy du Pont Company.

Testing acid in the sulphuric acid coolers at the Grasselli Works of du Pont.

have consumed a sizable proportion of annual income from sales and these proportions have ranged, according to recent figures, from as high as 5 per cent of sales for Dow Chemical to a minimum of 1 per cent of sales for Columbian Carbon Co. The largest reported amount expended in research last year was by du Pont, who is said to have spent upward of $7,000,000 or approximately 2.3 per cent of last year's sales. While the dollar amount of du Pont's research expenditures would hardly be exceeded by any other unit in the chemical industry, the proportion of research costs to sales was higher for other representative, but smaller, chemical companies such as American Cyanamid, Monsanto, Air Reduction and the previously mentioned Dow Chemical Co.

The results of research expenditures are not all measurable in terms of immediates sales for it has often happened that the search for one objective has resulted in the discovery of an entirely new product or method which has, after further research, developed into a much better source of income than the original object sought. Many of the now common plastics have been discovered in just such a manner and their utility and general acceptance by industry bear testimony to the value of their accidental discovery.

Quite naturally, having just passed the first anniversary of the second World War and being engaged in feverish preparations for any possible repercussion in this country, most thoughts turn to explosives, the fundamental chemical product used in warfare. Explosives, including cordite, T.N.T., dynamite and many other similar materials, are in increasing demand although, surprisingly enough, the expansion in demand for explosives has thus far been sharply less than for many peace-time article such as paper making chemicals, paint materials, rayon solvents and dyes.

Not that we do not have the capacity for the production of explosives for we have an output capacity of more than 500,000,000 pounds yearly. Most of this capacity is devoted to the manufacture of commercial powders and du Pont, Hercules Powder and Atlas Powder account for approximately 80 per cent of it with the capacity of du Pont being approximately equal to that of the other two combined. To further increase the productive capacity of the nation's explosive makers, the Government has just worked out an agreement with du Pont whereby that company will operate a new Government-financed $25,000,000 smokeless powder plant on a fee or cost plus basis and thus relieve the company of the necessity of expanding productive capacity at its own expense that might prove to be useless after the emergency had passed.

One of the primary raw materials for the manufacture of high-explosives is glycerine. During the last war this basic material was obtainable only from animal fats and it was a scarcity of this particular material that is supposed to have contributed strongly to the defeat of Germany. We are no longer dependent upon animal fats for our supplies of glycerine for we are now able to synthesize this organic substance from coal tar derivatives and, failing in this, from gases obtainable from our extensive supplies of crude petroleum. Nitrates—formerly only obtainable from the crude nitrates of Chile—are also now obtainable in substantial amounts from the same sources as glycerine. While our present production capacity is only about 50 per cent of our possible war-time needs, raw materials for the making of nitrogen products are abundant in this country and it needs but a further increase in plant capacity in order to supply us with all of the materials that we may require.

Consumption leads production

Production could not have grown to present day figures nor would research have been sufficiently supported to discover the numberless new or improved materials now available had it not been for the fact that consumption of these products has kept pace with new developments. Last year, for instance, it has been estimated that nearly 8,500,000 tons of various chemicals were consumed in the United States. On that basis, 1939 consumption was almost 11 per cent greater than in 1929 although it was not the banner year of the decade. The only broad divisions of the chemical industry which failed to register substantial gains in the ten-year interval were the oldest ones which include fertilizers, covering materials, steel-making chemicals, coal products and explosives. A glance will indicate that this group is closely affiliated with

heavy industrial activity which even by 1939 had not reached a parity with the abnormally active year of 1929.

On the other hand, by far the sharpest gains in consumption of chemicals were found in such relatively new industries as rayon and plastics. These two new industries consumed approximately 10 per cent of the country's total chemical output in 1939 as compared with but slightly more than 3 per cent in 1929. The paper industry and petroleum refiners also consumed large additional amounts of chemicals and now between them consume approximately 25 per cent of the nation's annual production of chemicals. Although current chemical production is only moderately higher than it was a year ago, consumption at the present time is not only close to the highest production levels of last year but is higher than any previous record of former years. The prospects are for continued growth of demand which will probably exceed production capacity for a time, at least.

Such new industries as rayon and plastics demand large quantities of solvents, alkalis and a number of organic materials. Since it has been within these groups of chemicals that the greatest demand has appeared , it is not surprising that the most attention has been given to their development. Organic chemicals were formerly derived mostly from plant or animal substances as distinct from minerals. Most of them are now produced by synthetic means and the fact that they contain carbon in one form or another has come to be the classification method rather than the older—but perhaps more correct—method. Petroleum, natural gas and coal have become the basic raw materials from which the many complex materials ranging from excellent dyes to such medinical materials as aspirin are now prepared. The number of individual items so obtained is vast although their application is even broader.

We have seen that domestic consumption has been rising ever since American makers have become increasingly able to furnish the required materials but it took the advent of a second World War sharply to stimulate our foreign sales. Prior to 1939 exports accounted for aproximately 7 per cent of total production and imports were approximately 3.5 per cent of domestic consumption. During the same period, Great Britain, Germany and France controlled approximately 50 per cent of the world's total export markets. With Germany and France now out of the world markets and the exportable surpluses of British chemicals almost nonexistent, it devolves upon the United States to take up the slack and to attempt to supply the rest of the world with a large part of its chemical needs.

That this country has already inherited the position of premier chemical manufacturer of the world is witnessed by export figures for the first half of 1940. Shipments abroad of American-made chemicals in the first

Principal Chemical Manufacturers, Their Products and Prospects

Company	Major Products	Estimated 1940 Earnings	Recent Price	COMMENTS
Air Reduction Co.	Industrial gases	$2.50	41	Increased construction, railroad and steel activities promise increased business.
Allied Chemical & Dye	Heavy chemicals and analires	12.50	151	Covering nearly every branch of industry, should participate fully in improvement.
Amer. Agric. Chemical	Fertilizers and phosphates	1.45Je	16	Business in fertilizers probably steady with increased sales in phosphates.
†American Cyanamid	Acids, solvents, dyes	2.70 "B"	34	Formerly an agricultural chemical producer, now line covers wide territory.
★Atlas Powder	Explosives and nitros	6.00	64	Report prospects should increase earnings.
Catalin Corp	Plastics	.50	3	Company's products adaptable to military needs.
★Columbian Carbon	Carbon black	6.00	79	Second largest carbon black producer holds extensive investment portfolio as well.
Commercial Solvents	Alcohols (fermented)	1.50	10	Solvents in increasing demand from all branches of industry.
Davison Chemical Corp	Acids and phosphates	d .54Je	5	Dependent to great extent upon fertilizer business.
†★Dow Chemical Co.	Brine products, magnesium	6.65My	133	New magnesium metal promises to supplement other profitable items.
†du Pont de Nemours	Explosive and all chemicals	9.75	166	Country's leading chemical manufacturer.
★Freeport Sulphur	Sulphur	4.00	30	Sulphur prospects good and manganese production increasingly profitable.
†Hercules Powder	Cellulose products and explosives	5.00	82	Only partially dependent upon explosives. Recent disaster will probably be costly.
†★Heyden Chemical	Coal tar derivatives	7.00	73	As a producer of pharmaceuticals and fine chemicals should continue to prosper.
International Agric. Corp	Fertilizers	NE	2	Potash and phosphate sales improving but large immediate earnings unlikely.
International Salt	Salt and products	3.50	32	Produces about 25% of this country's rock salt as raw materials for heavy chemicals.
†Mathieson Alkali Works	Alkalis and gases	2.25	26	New products and good demand for old will maintain uptrend in earnings.
†★Monsanto Chemical	Industrial chemicals and plastics	5.00	90	Products cover wide list of materials, all of which are in good demand.
Pennsylvania Salt	Salts, acids, etc	11.51Je	185	Sales widely diversified, making earnings follow industrial activity.
Tennessee Corp	Acids and copper	.60	6	Demand for sulfuric acid and insecticides, etc., should improve earnings.
★Texas Gulf Sulphur	Sulphur	2.50	31	Sulphur exports will complement better domestic sales.
†Union Carbide	Gases, carbon, alloys	5.75	72	All products in good demand and earnings should continue to advance.
United Carbon	Carbon black	4.00	50	Black in good demand and natural gas sales are rising.
U. S. Industrial Alcohol	Alcohols and derivatives	1.00	19	Synthetic resins and other products steadily replacing alcohol as most important.
Victor Chemical Works	Phosphoric acid	2.00	25	Best customer food industry which assures relatively steady earnings.
Va.-Caro. Chemical Corp	Fertilizers and acids	NE	2	Preponderance of fertilizer sales prevents heavy profits from war preparations.
†Westvaco Chlorine	Chlorine and caustics	3.75	33	With all products in good demand, should continue to report improving earnings.

Je—Year ending June 30, 1940, actual. †—Recommended for cyclical appreciation. ★—Recommended for income. NE—No estimate. d—Deficit. My—Year ending May 31, 1940, actual.

six months of this year were valued—according to the Department of Commerce—at $128,361,000 as compared with $82,825,000 in the same period of 1939 and total 1938 exports of but $160,000,000. The six months' exports figures were approximately 55 per cent higher than in the same period of a year ago and give every indication of increasing. Exports of dyes, formerly the almost exclusive property of Germany, and other coal tar products reached a total value of $15,000,000 in the first six months of this year and were nearly $9,000,000 larger than they were a year ago. The volume of dye exports increased from 5,000,000 pounds to approximately 14,000,000 pounds in the period and the value of the 1940 shipments was $7,070,000 as compared with the previous figure of $2,215,000. As the stock on hand of German dyes becomes smaller, exports of American dyes should continue to increase to the rising satisfaction of such dye makers as Allied Chemical & Dye, General Aniline & Film and du Pont, who rank among this country's leading makers of analine dyes and other coal tar products.

Industrial chemical exports also rise

First half exports of medicinals were nearly as large as dye exports in point of value. Foreign shipments of such materials in the first six months of 1940 were valued at $14,725,000, up nearly $6,000,000 from a year ago. Most of the medicinals went to South American countries who formerly purchased a large part of their needs from Germany and the value of these shipments was approximately 54 per cent of all such shipments as compared with less than 40 per cent a year before. Of greater importance was the fact that shipments of non-proprietaries—patent medicines are called proprietaries—increased more than 100 per cent in value from $3,065,000 in the first half of 1939 to $7,573,000 in the same period of this year.

Industrial chemicals have not lagged in securing their share of the export business, for shipments of these products in the period ending June 30 were valued at about $26,500,000 or approximately 50 per cent greater than a year ago. Even explosives have come into sharply higher demand despite the fact that from the outset of the war last September until almost the end of May, 1940 foreign sales of industrial and other explosives were approximately at normal levels. In June, however, demand rose sharply and shipments for that month were valued at $6,977,900 and the total for the six months period was thereby increased to $9,319,600 as compared with exports valued at about $2,000,000 in the same period of 1939. While a goodly part of the 1939 shipments were strictly commercial explosives and detonators, other than industrials materials are making up an increasingly large part of present shipments. Higher export demand for explosives coupled with our own industrial and military requirements for preparedness should push the productivity of du Pont, Atlas Powder and Hercules to capacity over the nearer term.

With the possible exception of the agricultural chemical group, all chemical manufacturers should benefit in varying degrees from the suddenly enlarged export markets and the increased industrial activity in this country due to defense measures. Allied Chemical & Dye Co., for instance, will not only benefit from a better market for its anilines and other coal tar products, but will also find an increasing demand for its other products from the rayon, steel, textiles, paper, soap, glass and other industries, all of which are active and all of which use one or more of Allied Chemical's materials.

Atlas Powder Co., although primarily an explosives maker and as such in line for increasingly better business from that source, also manufactures artificial leathers, lacquers, enamels, pyroxylin and nitrocellulose. New solvents—Mannitol and Sorbital—of present use to the textile, leather, cosmetic, paper and tobacco industries are of longer term importance to many industries although for the present the explosives end of the business is of more importance. The increasing demand for explosives in already apparent in the company's earnings for in the first six months of this year the company reported net income equivalent to $2.29 a share of common stock as compared with $1.12 a year ago. With such a start in the first six months of the year it is quite probable that full year earnings will exceed the $3.82 a share reported for 1939 by a wide margin and if not too heavily penalized by new taxes, may closely approach to $7.66 a share reported for 1929. British war orders are playing an important part in the company's position and they have been sufficiently large to warrant an increase in plant facilities. In the past, the United States government has purchased a moderate amount of its explosives requirements from Atlas but the proportion of government sales is on the increase due in some part to the rather limited production capacity of the explosive makers' facilities.

The solvent makers such as the ubiquitous du Pont, Commercial Solvents, Dow Chemical, Monsanto Chemical, Union Carbide and U. S. Industrial Alcohol will all participate in the generally good chemical business for were it not for these solvents, many processes including the manufacture of rayon, explosives, lacquers and

plastics of many kinds would be next to impossible to operate. All of these companies have other chemical interests as well which offer even broader markets for their various products.

Many of the most commonplace products such as paper, glass and steel could not be made in today's manner if it were not for an adequate supply of commercial acids such as sulfuric, hydrochloric and nitric as well as their antitheses, the various alkalis made mostly from sodium and lime. Most of the large chemical companies manufacture acids of various types and many of them manufacture one or more type of alkalis. The fact that Mathieson Alkali Works confines its activities almost solely to the making of good alkalis sets it apart from most of the others in the chemical industry. Mathieson serves the textile, rayon, glass, paper and other alkali consuming industries with the most important soda compounds such as soda ash, caustic soda, chlorine, bleaching powders and ammonia. A by-product of potential longer term importance is solid carbon dioxide, better known as dry-ice.

Courtesy Dow Chemical Co.

Huge rotary dryer used in manufacturing epsom salts.

Mathieson has been diligent in the matter of research and as a result has been able to maintain—if not to improve—its position in the industry. The most recent published accomplishment of the company is a new bleaching product called "Chlorite," a combination of sodium and chlorine but possessing such bleaching power that among other things it is said to be able to convert kraft wood pulp—commonly used in the making of brown wrapping paper—into a long fibred white bleached pulp suitable for the best grades of white paper and comparable to foreign-made bleached sulphite pulp that has become such a scarce commodity since the outbreak of the war. Not only does this pulp lend itself admirably to the paper industry but it is also practically made to order for the rayon industry whose recent supplies of satisfactory wood pulp have been adequate but whose future supplies have been subject to conjecture. If "Chlorite" is able to accomplish most of the things claimed for it, the product should be a source of considerable additional revenue in the future.

Another product—also developed as a substitute for a paper-making material made scarce by the war abroad—is sodium sulphate or salt-cake. The Southern pine paper makers used approximately 400,000 tons of this material in 1937 when the industry was operating at high levels and most of it was imported. Since that time, the demand for salt-cake has increased and the available supplies have declined until Mathieson introduced its American-made product which may eventually succeed in stopping the gap left by the reduction of imported materials. Mathieson's earnings are reflecting the changes in chemical demand for in the first half of this year per share earnings were almost triple those of a year ago. Customarily, the second half of the year produces about three times as much earnings as the first half due in most part to the seasonal business of its major customers. If the same thing holds true this year then the $0.90 a share reported in the first half of 1940 will probably increase to somewhat more than $3 a share and thus compare very favorably with 1929 earnings which were approximately $3.31 for that year. It is likely that the company's customarily liberal dividend policy will be continued. While foreign sales have previously played a relatively unimportant part in the company's business, the elimination of German products from world trade is finding reflection in sharply higher exports by Mathieson. This feature of the business, while it will add to nearer term earnings, will probably lack longer term importance since it is not likely to be completely retained after peace has been declared abroad.

Chlorine Important

Among the products of smaller importance made by Mathieson Alkali are chlorine and several compounds of this element whose principal peacetime use is as a bleach for many substances such as paper, textiles, woods, etc. Chlorine is important to both industry and warfare although Mathieson Alkali is not by any means the largest producer of this corrosive gas in the country.

Westvaco Chlorine Products Corp. specializes in the production of chlorine gas and is one of the largest sources of commercial chlorine in this country. The gas is derived mostly as a by-product of other chemical processes although it is obtainable in such volume as to constitute a major source (*Please turn to page* 698)

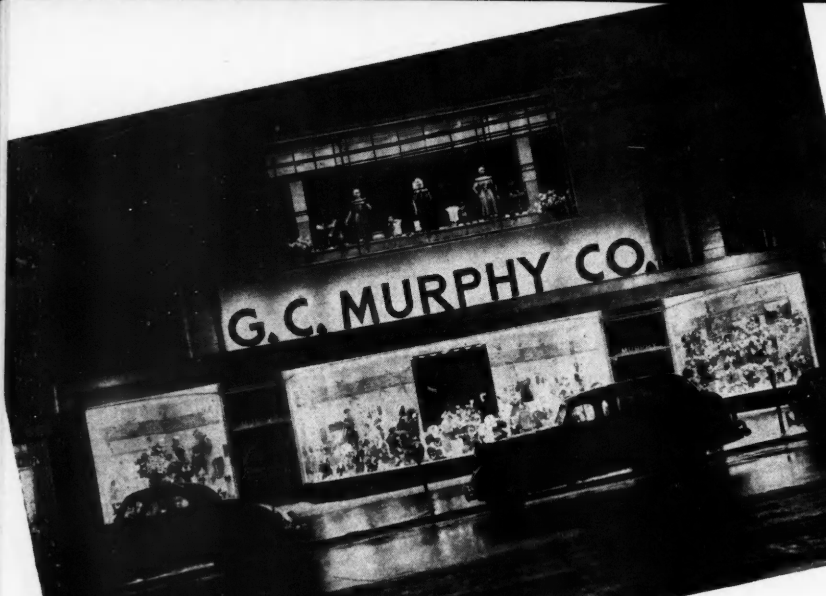


Photo courtesy Chain Store Age

New store at East Liberty, Pittsburgh, Pa.

Topping

The G. C. Murphy Co., operating a chain of some 200 variety stores, has the distinction of being a growing company in a mature economic field.

The business of chain store retailing is a relatively static industry in which present day growth possibilities must be measured largely in terms of increasing population and the trends of general business and industrial activity. The greatest period of growth in the chain store industry occurred in the decade following 1920-21, a period which witnessed large scale expansion of chain store units throughout the country, accompanied by a marked year-to-year increase in the sales of leading chain store operators. Since 1931-32, however, there has been a decided slowing down in the rate of chain store growth, both from the standpoint of the number of outlets and the volume of sales. Various factors appear to have been largely responsible for this trend. Anti-chain store legislation, increased taxes levied punitively against the chain store and the law of diminishing returns have made it necessary for chain store organizations either to mark time or seek other means of expanding their sales and operations. These conditions have had the effect of placing considerable premium upon managerial ability to develop new policies and selling ideas. In the variety store field these have taken such forms as the introduction of merchandise in a wider variety and price range, modernization of stores and the installation of new departments such as restaurants, bakeries, etc.

G. C. Murphy Co., however, rather than merely exemplifying this trend toward internal growth, has in fact achieved outstanding success in this direction, unmatched by its leading rivals in the variety chain field.

In 1929 G. C. Murphy operated a chain of 153 stores. During the ensuing ten years, 49 stores were added—an increase of 32 per cent. In 1929 the average annual sales per store were approximately $102,000. In 1939, the company's average annual sales per store totaled about $234,000, an increase of 131 per cent. These figures become even more impressive when contrasted with the experience of several other leading chain store organizations.

Between 1929 and 1939 inclusive, stores comprising the J. J. Newberry chain increased 72 per cent in number. In the same period, however, average annual sales of each store rose from about $100,000 to only about $108,000. The chain of S. S. Kresge, between 1929 and 1939, had an increase of 24 per cent in the number of individual units, but in 1939 annual average sales per store were only about $206,000 as compared with $260,000 in 1929. S. H. Kress operated 18 per cent more stores in 1939 than in 1929, but average sales per store in the same period increased only 5 per cent.

Additional emphasis is given to G. C. Murphy's progress in the 1929-39 period by a comparison of the growth in the aggregate sales of these several variety chains. In 1939 total sales of S. S. Kresge were about $2,500,000 less than in 1929. In the same year sales of S. H. Kress were 25 per cent higher than in 1929, J. J. Newberry's were up 86 per cent, while those of G. C. Murphy had increased 194 per cent, to set a new high record for the company.

If the management of G. C. Murphy had a formula by which their company was enabled to make such a superior showing, there is nothing to suggest that it was concocted of ingredients not known to other campanies in the field. In recent years, of course, the company has been pursuing a policy of store modernization, but this has been generally true of most variety chains. It is probably a safe assumption that the company derived its more substantial advantages from less tangible factors such as unusual foresight in the selection of store locations and sites, accurate gauging of its customers' needs and a sincere effort to be an integral part of the communities served by its stores. Last but not least there appears to have been that intangible something, required

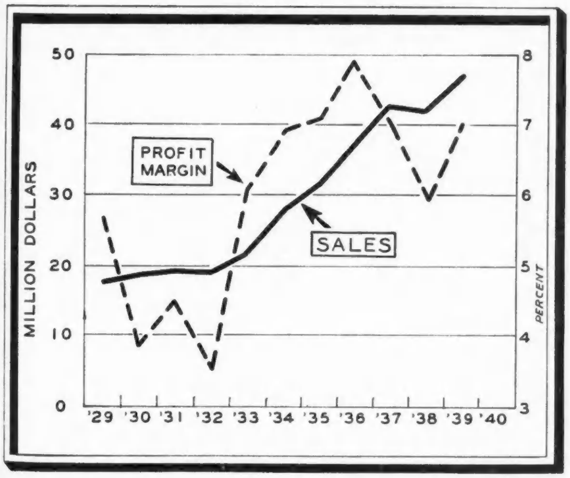
the Variety Chain Field

The G. C. Murphy Company's Unexcelled Progress

BY STANLEY DEVLIN

in all successful merchandising, that makes it possible for one storekeeper, without any apparent advantage in the form of prices, service or facilities, to do a land office business, while his rival across the street spends most of his time twiddling his thumbs.

In point of size, G. C. Murphy is not one of the larger variety chains. Of the 203 units which comprise the company's system at the present time, only eight stores have been added in the past five years. Moreover, the system is compact rather than sprawling. The bulk of the stores are concentrated in Pennsylvania (97) and West Virginia (29). Seventeen stores are in Ohio, 16 in Maryland, 12 in Indiana, 9 in New York, 5 in Connecticut and 4 each in New Jersey and Kentucky. While this concentration of stores might suggest a degree of



vulnerability to state taxes aimed at the suppression of chain stores, the company is favored by the fact that of the states in which the stores are located, only Maryland and Indiana impose chain store taxes, and in neither instance are they unduly burdensome.

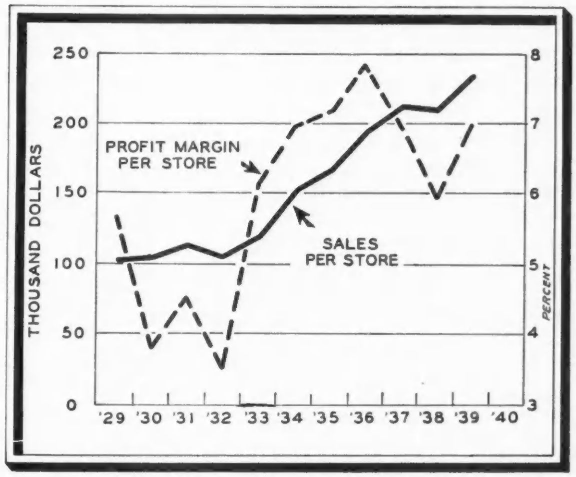
So far as chain store taxes are concerned, however, it appears that punitive legislation of this description is now definitely on the wane. It is worth noting in passing that chain store taxes of the type designed to restrict and penalize chain store merchandising imposes much less hardship on the average variety chain than on grocery chains. The latter group operate on an extremely small margin of profit—less than 2 per cent in many instances—thus making it much more difficult to absorb heavy taxes than in the case of variety chains which are favored by much more generous profit margins.

A further breakdown of G. C. Murphy's selling area discloses a very marked concentration of stores in industrial areas. More than 25 per cent of the company's units are distributed throughout the Pennsylvania steel areas. In the circumstances it might logically be supposed that sales would be highly sensitive to the sharp changes which have occurred in industrial activity and purchasing power in recent years. Such, however, was not the company's experience. Since the low point of 1932 sales have risen steadily, with the exception of 1938 when a decline of about \$300,000 from the record level of 1937 took place. Last year sales set a new high record, overshadowing the 1937 level by about \$4,700,000.

This unusual record, in marked contrast with that of various other types of merchandising organizations in the same period, reflects the relatively stable demand for limited price merchandise, a demand which has shown itself to be relatively immune from practically all except the most drastic changes in the tempo of industrial activity.

Like most variety chains at the present time G. C. Murphy stores specialize in merchandise ranging in price from 5 cents to \$1. Within this range customers are offered a surprisingly wide choice of merchandise, and at prices which place no considerable strain on even a limited family budget. Hence, it is likely to require a rather serious and prolonged period of industrial depression and unemployment before sales are likely to be greatly curtailed.

Nor do the customers of a variety chain succumb to the lure of higher priced merchandise when times are good, or at least not to an extent sufficient to make any noticeable impression on sales. Current sales of G. C. Murphy attest this. Responding to steadily increasing industrial activity, reduced (*Please turn to page* 700)



As The Trader Sees Today's Market

Resistance of the War Orphans

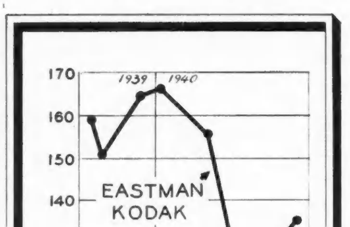
BY FREDERICK K. DODGE

For over a year now practically all investors have made their decisions on securities with war influences the first consideration. Many poor guesses have been made, not only in the anticipation of events to come but in the interpretation of their effect on industries and stock prices. Before the war actually broke out, the majority thought such a calamity would break the market badly. After it had got under way and business in this country was booming, there seemed little excuse for a reactionary market which persisted until the drop brought about by the French collapse.

But however inept the attempts to foresee war's effects, they have been registered in stock prices which go off on numerous tangents, creating a market in which the general trend is no assurance that all good issues will be headed in the same direction. Switching out of "war orphans" need be only of small proportions today to create individual bull and bear moves which offer unusual opportunities to the trader. And since there is no reason to believe that this process has ended, a little study of what has already happened should be very useful in the future.

Charted here are The Magazine of Wall Street's index of 40 leading stocks and four outstanding examples of nonconformist issues, with only the more important swings shown for slightly more than a year. Besides the refusal of these stocks to move with the averages, they have one other characteristic in common and that is their high quality. Doubts of their fundamental value could be caused only by some such shattering events as wars and major depressions.

On last year's swing from late August to the September highs after the war had begun one of these four issues remained unchanged, one advanced in about half the proportion of the market averages, and the other two declined. Woolworth was hardest hit, losing 20 per cent of its market value while the average was rising 21 per cent. Eastman Kodak was off a third as much as Woolworth, but had less obvious reasons for fearing the war than Woolworth's important English assets.



The two that were most hurt in the first upsurge based on war managed to rally when the market eased back to its November 30th lows; the other two were off with the general market, with Nickel beginning to show its vulnerability. Corn Products and Eastman Kodak, however, were by the end of November above their August levels. It was on the following market recovery that all four of these issues gave the clue to subsequent poor action. They recovered only a quarter as much in percentage as the general market to January 3rd of this year. Then on the May-June break Nickel distinguished itself by its weakness and the others were not far behind. In normal times they are relatively stable stocks moving much less widely than the averages, but on this occasion these particular investment grade issues acted like high leverage speculative counters.

The four stocks charted are now well below their levels of August, 1939, while the market average is very little changed. If it could be assumed that the June lows in the war orphans represented full discounting of a German victory, the points would be more significant than for the market as a whole, since purely domestic concerns must have reached a less thoroughly sold-out position then. In other words, 21 for Nickel, 30 for Woolworth, 45 for Corn Products, and 119 for Eastman Kodak are bases established when things looked much worse for them than for the averages; and the bases should be correspondingly more important if another series of war discouragements should come.

Only Nickel is a normally suitable trading vehicle and the advance already

registered in that issue has been large enough to arouse suspicions that a large part of its technical strength for the time being must have been used. The others might be looked upon as possible relatively safe speculations on war news if they approach previous support levels, with stop-loss orders to handle the contingency of a further drop. On the other hand, when and if we see reason to believe that stocks are entitled to sell entirely, ex-war, the low prices of these four stocks (and others like them) in comparison to their levels before the outbreak of hostilities suggests that their rallying power might be surprisingly potent for such a type of common stocks.

Price-Earnings Discrepancies

More is heard about price-earnings ratios during these few months than would ordinarily be said in years. They are so extremely low—that is, prices are so low in relation to earnings—that the subject is good for a discussion or an article as often as it is broached.

Many take it as a mysterious sort of injustice that their stocks should pay so little heed to higher earnings and dividends. They forget that in the last war there were cases just as extreme of refusal to capitalize profits at anywhere near a normal rate. They also forget that where the facts justify it this market can still place a rather generous value on earnings; and that there is usually a reason for discrepancies in market valuations. Understanding this can prevent the mistakes which are likely to follow too buoyantly optimistic an approach to an issue selling only five or six times this year's estimated profits.

Take three stocks whose earnings were within a few cents of each other in the first half of the current year, whose outlook for the rest of the year and for 1941 runs along the same trend, and whose general market activity (all listed on the New York Stock Exchange) is similar. Ingersoll Rand earned $3.06 in the first half, National Steel $3.18, and Weston Electrical Instrument $3.12. Yet one sells at approximately 97, another at 64, and the third at 33.

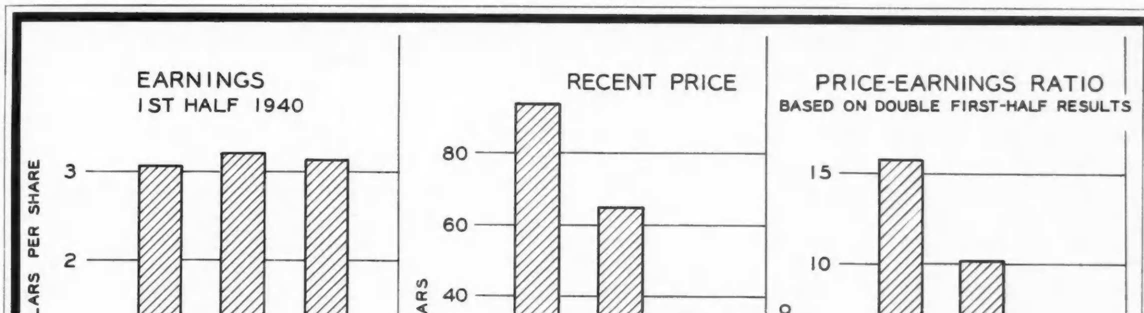
If we simply double these profits to arrive at a mechanical estimate for the year, we find Ingersoll Rand selling at 15.8 times 1940 earnings, National Steel 10 times, and Weston at 5.3 times. In order to live up to any blind faith in earnings as a market gauge, we should have to conclude that the outstanding attraction among the three is Weston Electrical and that Ingersoll Rand is a relatively unattractive proposition. That might be true, but it does not follow from the obvious facts.

Last year Ingersoll Rand earned $6.01 a share and sold between a high of 131 and a low of 86; its highest price-earnings ratio was 22 and its lowest 14.3. National Steel ranged between 82 and 52, with profits for the full year $5.71; its high ratio was 14.4 and its low 9. Weston Electrical earned $3.03 and ranged from 28½ down to 10½, showing a spread between price-earnings ratios of 9.5 to 3.5. Evidently this condition of apparently inconsistent valuations is not new. And that means that there is no reason to assume it will change radically unless some of the underlying circumstances change.

Ingersoll Rand has never missed a dividend in any year since 1929, has averaged over $4 annually in the ten years starting with 1930 and ending in 1939. In other words, if one had bought it at the current price of 97 and carried it through the country's greatest depression, the yield on the investment would have been better than 4 per cent. The company has current assets eight times current liabilities and cash alone four times such charges.

National Steel is the only major steel company able to boast that it went through the depression without a single unprofitable year. In 1929 its constituent companies showed aggregate profits of $5.41 and in 1937 National reported a new record of $8.21 a share. Last year its total earnings came to $5.71, of which $2.40 (or close to a $10 annual rate) was produced in the final quarter alone.

Weston Electrical Instrument is a much smaller company with only 160,583 shares outstanding, and for that reason able to show substantial jumps in earning power per share but also lacking the stability of the other two companies. Over the four years beginning with 1936 its profits have come to $1.22, $2.10, $0.71 and $3.03 per share. Not only does the relatively new growth in profits attract less investment buy- (*Please turn to page* 700)



Another Look at . . .

American Metal | **U. S. Rubber**
Air Reduction | **Loew's, Inc.**
B. F. Goodrich | **Miami Copper**
General American Transportation

BY THE MAGAZINE OF WALL STREET STAFF

We here continue our practice of periodically reviewing companies previously discussed at length. This gives us the opportunity of revising opinions if necessary, and for emphasizing the need for constant supervision of investments.

From the 1940 high of 25, the shares of **American Metal Co., Ltd.**, declined to a low of 12¾, a drop of nearly 50 per cent. Of this decline, less than 30 per cent has been recovered. This market action is in sharp contrast with that of the market as a whole as measured by THE MAGAZINE OF WALL STREET Common Stock Index of 309 issues, which this year have shown a maximum decline of 32 per cent and a subsequent recovery of about 40 per cent of the drop. The unimpressive market action of American Metal shares reflects the extent to which the company's operations have been adversely affected by the war. Approximately 60 per cent of the company's net assets are in the form of investments in low cost copper mines located in South Africa, principally through the medium of the shares of the Rhodesia Selection Trust and Roan Antelope Copper Mines. The latter being British companies, they are not only subjected to controls governing the output and price of copper, but dividends, being payable in sterling, are restricted by heavy taxes and the depreciation in English exchange. In addition, the company has property interests in Mexico, South America and Cuba. Sizable investments are also held in the shares of Consolidated Coppermines and Climax Molybdenum. Domestic interests include the ownership of copper, lead and zinc smelters and a silver mine in Texas.

Data bearing on the company's current operations are limited to reported earnings. First quarter operations resulted in net of $523,686, or the equivalent of 34 cents a share on the common stock, as contrasted with $14,654 in the corresponding period of 1939. Second-quarter earnings totaled $538,377, or the equivalent of 36 cents a share on the common stock, contrasting with $520,263, or 34 cents a share, in the same months a year ago. On this basis, indicated earnings in the first half of the current year were equal to 70 cents a share, as against 27 cents a share in the same period a year ago, and net profits for the twelve months ended June 30, last, were equal to $2.55 a share, as against $1.42 a share for the twelve months ended June 30, 1939. The probabilities are that domestic operations are providing the bulwark for current earnings. Properties in Mexico and South America are unlikely to contribute to current earnings, and dividend income from Climax Molybdenum and Consolidated Copper Mines interests is unlikely to exceed last year's total, and may fall behind.

The last three dividend payments on the company's common stock have been at the rate of 25 cents a share quarterly, and from all indications, continued payments at this rate appear relatively secure. Recently quoted around 16, the shares are probably selling well below their asset value. This fact, however, coupled with the liberal yield, would seem to provide the principal inducement for continued retention of present commitments.

* * *

Although earnings of **General American Transportation** in the second quarter fell moderately below the results shown in the first three months, prospects at the present time appear to be sufficiently promising to suggest that for all of 1940 the company may show upwards of $4 a share for the common stock, as compared with $3.11 a share in 1939. In the first quarter net available for the common stock was equal to $1.20 a share, while in the second quarter, per-share results amounted to $1.01 a share. On this basis, indicated earnings for the first six months totaled $2.21 per share, compared with $1.23 per share in the corresponding months a year ago.

This year the company's leasing activities of its some 58,000 freight and tank cars have been stimulated by substantially enlarged shipments of chemical and petroleum products, utilizing tank cars. Terminal activities have likewise felt the impetus of increased industrial activity. Reflecting the receipt of several sizable orders and a lower-than-anticipated level of shipments in the first half, the backlog of orders in the company's manufacturing division at the present time is substantially greater than at the beginning of the year. Unlike some of the other leading railway equipment companies, General American

Transportation has thus far had no direct benefit as a result of armament activities. Defense orders may materialize later but in the meanwhile the company appears assured of well sustained operations and earnings for some months to come. The most recent dividend was at the rate of $1.25 a share on the common stock, and on the basis of reported earnings, total payments for 1940 should be at least $2.50 a share. Recently quoted at 47, the shares appear well worth holding for both income and price appreciation.

* * *

Thus far this year the market action of **Air Reduction** common stock has deviated noticeably from that of the market as a whole. The shares, in declining from their current high of 58⅛ to a low of 36½, suffered a drop of about 38 per cent, whereas the decline in the market as a whole, as measured by THE MAGAZINE OF WALL STREET Common Stock Index, amounted to 32 per cent. Subsequently, Air Reduction has recovered only 27 per cent of the decline, whereas the market has shown a recovery of about 40 per cent. A year ago, during the short-lived war boom, Air Reduction shares sold around 65-67. Despite the fact that both earnings and prospects have undergone considerable improvement since that time, the shares at the present time are still about 25 points under the level of last year.

Air Reduction is the second largest producer of industrial gases and welding equipment and, in its field, is understood to account for approximately 40 per cent of the total business. Industrial users include the steel, railway equipment, and the metal fabricating trades, all of which have shown marked acceleration in activity in recent months, as a result of both foreign and domestic armament orders. In the June quarter, the company reported net of $1,663,106, compared with $1,205,340 in the corresponding months a year ago, and equal to 61 cents and 47 cents per share respectively for the common stock. Based on quarterly reports, net for the first six months of this year was equal to $1.14 a share, comparing with 87 cents a share in the first half of 1939. With activity, particularly in the steel industry, likely to be sustained at average high levels throughout the last half of this year, it is reasonable to assume that earnings of Air Reduction will show a widening in the rate of gain over last year. Earnings on the common stock of from $2.50 to $3 a share apear to be well within the realm of possibility. The last three dividends have been paid at the regular rate of 25 cents quarterly, plus an extra of 25 cents, and the probabilities are that subsequent payments will at least match these rates. The company continues active in the exploration of new fields and processes, augmenting and complementing its basic field of activity. While it may be conceded that there are other chemical issues apparently having greater dynamic possibilities than would appear to be offered by Air Reduction shares, in the present industrial setting, current quotations for the issue would appear to constitute sound speculative values.

Foreign interests of **B. F. Goodrich** are small and constitute no menace to the company's earnings or assets. With this exception, much that has been said about the industry's prospects in connection with U. S. Rubber (Page 680) would also apply to Goodrich. The company's sales in the first six months of this year were somewhat higher than a year ago, but higher production and raw material costs coupled with lower tire prices made a big dent in profit margins and net available for the common stock was equal to only 26 cents a share against $1.61 a share in the same period of 1939. Last half earnings should respond favorably to substantially increased demand for mechanical and industrial rubber goods. Some benefit will also be derived from the recent small advance in original equipment tires, as the automobile industry goes into its new model year. The company is a leading factor in the development of synthetic rubber and has recently announced the joint formation with Phillips Petroleum of the Hydro-Carbon Chemical & Rubber Co., for the production of Ameripol, a synthetic crude rubber. In fact, the company has already started the production of tires made of synthetic crude rubber. The cost, however, is considerably larger than that of the natural product. On a price basis, at recent levels around 12, the shares are not without speculative appeal.

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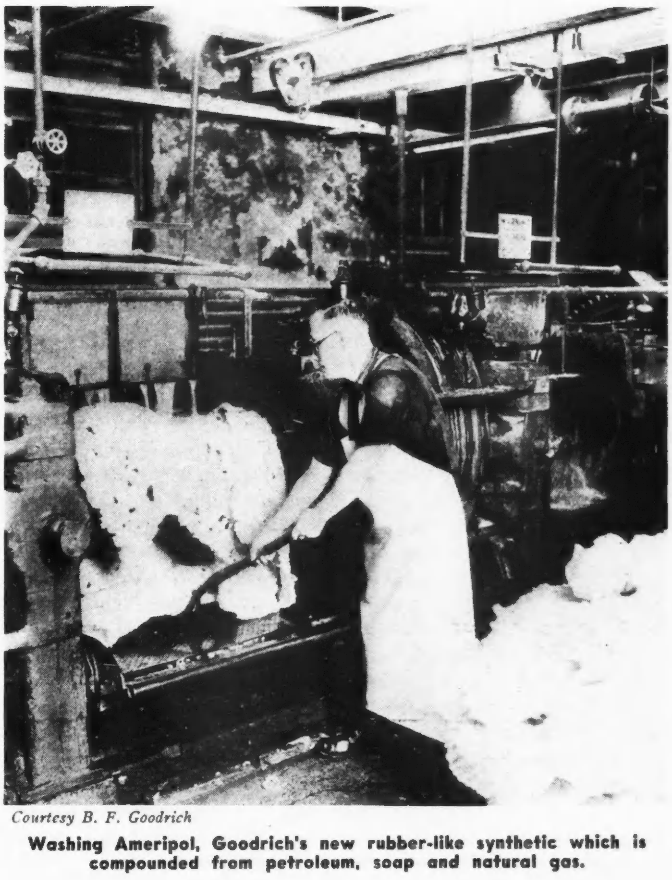
Loew's, Inc., was discussed in THE MAGAZINE OF WALL STREET on January 13, 1940, as one of the first corporate



Courtesy B. F. Goodrich

Washing Ameripol, Goodrich's new rubber-like synthetic which is compounded from petroleum, soap and natural gas.

casualties of the war. Normally deriving from 25 to 30 per cent of film rentals from foreign distribution, the outbreak of the war found the company in a vulnerable position. Moreover, subsequent events have served to intensify, rather than alleviate, the restrictions on foreign operations. The company's business has been particularly hard hit by British blackouts, and intensive German bombing of London and environs is hardly calculated to stimulate attendance at the cinema.

Thus far, however, the adverse foreign situation, insofar as its effects upon the company's current earnings are concerned, has been largely obscured and offset by the outstanding success of the feature film "Gone With the Wind." Loew's joint ownership of this film may contribute as much as $5,000,000 to earnings. The company's latest reported earnings cover the 40-week period ended June 6, last, and disclosed net income of $7,996,394, and earnings available for the common stock were equivalent to $4.39 per share, as compared with $8,173,-060 and $4.62 a share in the same period of 1939. In the most recent twelve weeks, however, earnings were equal to only 60 cents a share, as against 92 cents per share a year ago. Current earnings could have been reported on a more favorable basis, had not the management elected to act conservatively by revising its table of amortization of film costs as well as accelerating the rate of amortization. Moreover, in the forty weeks to June 6th, the company alloted a reserve of $3,100,000 for contingencies, nearly double such reserve in the 1939 period. Obviously, the management is well aware of the problems which confront the company and appears to be making every effort to meet them in a realistic manner. Studio and production costs are being shaved and economies effected in other directions. It is to be doubted, at the same time, that these efforts will be sufficiently effective fully to offset the decline in foreign revenues. Moreover, earnings of "Gone With the Wind" have doubtless passed their peak, although they promise to be cumulative for some months to come. Dividends of at least $2 a share annually do not appear in any serious jeopardy, for the present at least, and at current levels around 25—only about 5 points above the 1940 low—the market may have adequately evaluated the unpromising aspects of the company's near term outlook.

* * *

Accounting for about 5 per cent of total domestic output of copper, **Miami Copper** is one of the smaller marginal producers. Production costs average something less than 10 cents a pound, a relatively high figure in comparison with the costs of such leading companies as Kennecott, Anaconda and Phelps Dodge. The company's record has been an extremely spotty one, with deficits having been shown in every year since 1930, with the exception of 1936 and 1937. The company's showing in 1939 was the best since 1929. It is rather obvious, therefore, that Miami requires the benefit of sustained high domestic demand, as well as a higher price for its copper than the average for the red metal which has prevailed in recent years. Although copper prices averaged somewhat lower in 1939 than they did in 1937, earnings of Miami Copper were bolstered by sales of molybdenum totaling $181,487, plus $816,012 realized from the sale of copper carried over from 1938. Officials of the company have stated that first quarter earnings in the current year were considerably better than in the like 1939 period as a result of lower costs and improved selling prices. For the six months to June 30, last, the company reported earnings of $481,113, before income taxes. No comparison with the corresponding period a year ago is available.

Statistically, the domestic copper industry is in a comfortable position. Stocks of refined copper are equivalent to less than three months' supplies, of copper for nearby delivery is scarce and with the impetus imparted by the national defense program, sustained demand on the part of copper consumers appears assured. Recent prices for copper around 11⅜-11½ cents compare with 12 cents a pound a year ago.

Prevailing prices for Miami Copper shares around 7½ compare with the 1940 low of 6¼ and a high of 12¼. At these levels, retention on a speculative basis appears warranted.

* * *

Current quotations for **U. S. Rubber** common shares are about half of what they were a year ago, mute testimony of the extent to which fears have been aroused concerning the possible effects of the war upon both the company's prospects and properties. The course of the war has found U. S. Rubber to be in a vulnerable position, particularly as regards the company's sizable plantation interests in the Far East. This factor doubtless was mainly responsible for a decline of 64 per cent in the value of the shares this year, while in the same period an average of four tire and rubber stocks declined only 45 per cent. From their 1940 lows the latter group has shown a recovery of about 30 per cent, with the recovery in U. S. Rubber shares lagging somewhat at about 26 per cent.

In light of the foregoing, the company's report for the first six months of this year is both timely and enlightening. Previously the company had reported earnings on a consolidated basis and contributions made by foreign operations were not segregated. In the most recent report it is disclosed that of net consolidated earnings for the first half of this year amounting to $4,234,239, net of $1,029,788, or less than 25 per cent, was derived from plantations. Further, it was reported that of total assets amounting to $186,213,609, only $36,387,352 represented foreign properties. Of these, plantations in Netherlands East Indies accounted for $11,075,962 and those in British Malaya $10,590,544. The remainder represented principally investments in Canada.

Even before the German successes in Belgium, Holland and France, it was feared that Japan would move against British and Dutch possessions in the principal rubber producing areas in the Far East. Such a possibility implied a double-barrelled threat to U. S. Rubber. Not only would the company stand to lose important properties but U. S. Rubber, and incidentally other rubber manufacturers as well, would face severely restricted supplies of crude rubber, which could not be offset but for a brief period of time by inventories, or supplanted by synthetic rubber for some months to come. Inevitably raw material costs, in such circumstances, would skyrocket at a time when the possibility of advancing selling prices sufficiently to offset (*Please turn to page* 704)

The Bond Bulletin

Prices React with Stock Market

Conducted by J. S. WILLIAMS

M. W. S. Bond Index

	1939 High	1939 Low	1940 High	1940 Low	Sept. 7	Sept. 14
10 High Grade Rails	118.0	109.5	115.0	109.2	114.5	114.4
10 Second Grade Rails	42.9	31.3	38.2	27.7	36.4	35.5
10 High Grade Utilities	112.9	109.3	113.0	110.9	112.6	112.9
10 High Grade Industrials	111.7	104.9	112.0	108.0	111.0	110.6
40 Domestic Corporate	95.9	84.9	93.9	88.9	93.9	93.4

The second week in September, although it was one marked by a definite case of jitters in the stock market over the London bombing, proved to be the most active in new bond financing since Germany invaded the low countries last Spring. Undoubtedly contributing to this pickup to some extent was the S. E. C. decision to avail itself of its new power to shorten the waiting period on security issues. Formerly, twenty days were necessary between the time of registration and offering. Now, however, the S. E. C. has permitted the offering of Dow Chemical debentures only thirteen days after filing application and of the Houston Natural Gas first mortgage bonds only seven days after application.

The value of this regained flexibility is well illustrated by the policy of the Treasury in deciding upon its financing plans. Secretary Morgenthau is committing himself in no way as to forthcoming issues, although the market knows well enough that they may be expected in volume. Rather than take a chance on missing the market in either direction, the Treasury is holding all decisions open until the last possible moment, and watching the European situation carefully for indications as to what the domestic bond market will stand.

* * *

Second-grade rail bonds were a feature of the rally which set in during the latter part of August in both stocks and bonds. Satisfactory reports on carloadings, some excellent earnings reports, passage of the Transportation Bill, and a generally better feeling toward securities were all responsible. However, these issues proved sensitive to the more disturbing news from Europe and turned down with stocks at the end of the first week in September.

One of the provisions of the railroad bill passed by Congress is that the R. F. C. may aid in buying the bonds of solvent carriers which are selling at large discounts. The market has as yet paid little or no attention to this provision and seems inclined to remain skeptical of any immediate action. The supply of second-grade rail bonds at prices above the recent highs is somewhat an unknown quantity. How far institutional investors would be willing to stick with them in a prolonged upmove is the question.

* * *

Plans to allot $500,000,000 to the Export-Import Bank for use in economic stabilization of this hemisphere have not provided any noticeable (*Please turn to page* 704)

Important Bond Calls

Issue	Amount	Price	Date
Alabama Power 5% Ser. "A" due 1946	2,397,000	105	3/1/41
Canada Cement 3½ due 1944	E. I.	101	11/1/40
Firestone T. & R. 3½% Deb. due 1948	$1,500,000	103	10/1/40
Kelsey Hayes Wheel 6% Deb. due 1948	E. I.	100	10/7/40

E. I.—Entire Issue.

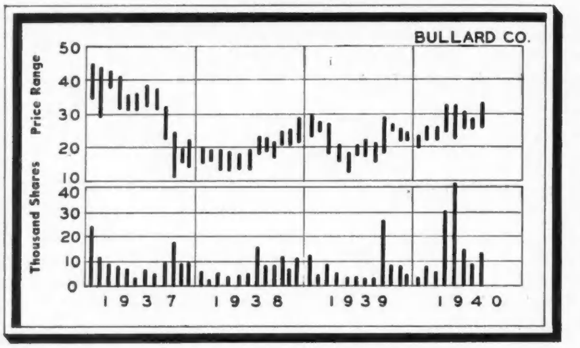
New Issues Marketed or Planned

Issue	Amount	Price
Dow Chemical 2¼% Deb. due 1950	$7,500,000	101½
.35% to 2.05% Deb. due 1940-1950	7,500,000	100
Houston Nat. Gas 4% 1st Mtge. due 1955	3,500,000	100
Western Auto Supply 3¼% Deb. due 1955	6,000,000	99½
Int'l Paper & Power 1st Mtge. Bonds	32,000,000	*
San Antonio Public Service 3½% 1st Mtge. due 1970	16,500,000	*

*—In registration.

Six Stocks Priced at Three

BULLARD CO.



BUSINESS: Formerly, Bullard Co. was a manufacturer of a general line of machine tools but in recent years has specialized in the making of a series of highly complex and costly but ultra-efficient basic automatic machines designed only for production methods of machining metals. The company has been favored in the last year or so by the fact that its machines are highly adaptable to the manufacture of aviation engines on a large scale as well as automobile motors and similar quantity produced items. The basic machines, which consist of a special lathe, a turret lathe and a multiple boring mill, have many accessories which make them suited to a wide field of application. Order-backlogs are reported to be approximately $8,000,000 and sufficiently large to maintain plant operations at capacity levels.

FINANCIAL POSITION: The capital structure consists of only 276,000 shares of no par value common stock. At the end of 1939 the company had no funded debt but did have outstanding $500,000 in bank loans. The most recent balance sheet available, which is dated June 30, 1940, is only a synopsis and does not disclose whether or not the bank debt has been liquidated or expanded but it does disclose a much stronger financial position than at the beginning of the year. The latest statement shows current assets of $3,728,593, which were more than double total current liabilities. Cash items of nearly $800,000 were at a new high level as were inventories of $2,641,731. In the case of inventories the amount is not excessive despite the fact that it was almost double those of a year ago. The large volume of business on hand and in prospect warrants such an increase. The company has been increasing its earned surplus to a point where it was close to $3,000,000 at the close of June.

OUTLOOK: It is possible that the last 6 months of 1940 will be quite as profitable for Bullard as were the first 6 months although the year's results will be sharply reduced by the imposition of new profits taxes to which this company seems vulnerable. Nevertheless, despite higher taxes it is likely that the company will establish a new earnings record.

MARKET ACTION:

	Bullard Co.	Market Average	Bullard's moves in rel. to av.
'37 high to '38 low..........	71% decline	64% decline	11% wider
'38 low to '38 high..........	119% advance	76% advance	56% wider
'38 high to '39 low..........	46% decline	34% decline	35% wider
'39 low to '39 high..........	93% advance	44% advance	112% wider

Average volatility on four moves 53% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—33¾. The shares are currently selling close to their 1940 highs. Earnings for the first half of this year are higher than in any full year since 1929.

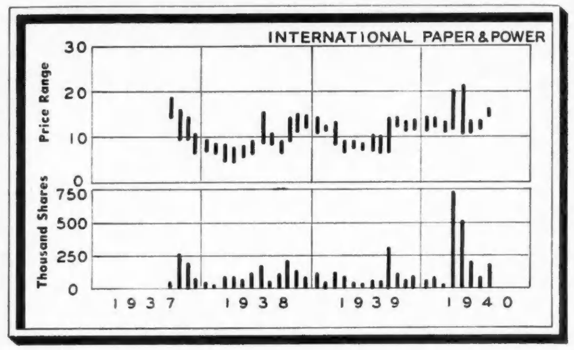
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932..........	NF	d$.69	d$2.51	....	8- 2⅛
1933..........	NF	d .43	d1.55	....	13¼- 2½
1934..........	NF	.11	0.40	....	15½- 5⅞
1935..........	NF	.29	1.06	....	24½- 8¼
1936..........	NF	.69	2.51	$1.75	35½-20¾
1937..........	$4.24	.88	3.19	2.00	45¼-10¼
1938..........	2.99	d .22	d0.08	0.25	29 -13¼
1939..........	3.57	.29	1.04	0.25	30 -15½
1st ½ 1940....	4.68	1.20	4.35	x1.25	x33¾-20
1st ½ 1939....	NF	.44	0.16	....	....

NF—Not available. x1940 to date.

Thumbnail Stock Appraisal

INTERNATIONAL PAPER & POWER CO.



BUSINESS: International Paper & Power Co. is one of the world's largest producers of paper, of various types, mostly kraft and newsprint, and wood pulp. Of particular interest at this time—in view of the shortage of fine foreign pulps—is International Paper's high grade sulphite pulp which is equal to the best foreign product and which the company has sufficient output capacity to permit sales of large quantities to rayon and plastics makers as well as other paper manufacturing companies. International's paper output capacity is about equally divided between newsprint and kraft papers although it is the kraft division that furnishes approximately 60% of total sales volume.

FINANCIAL POSITION: According to the 1939 balance sheet International Paper itself had no funded debt although subsidiaries' funded debt—including small 1940 maturities—amounted to $62,544,610 at that date. In addition there are $14,592,000 of bonds guaranteed as to principal, interest and sinking fund by subsidiaries. Earlier this year it was proposed to refund the subsidiary debt, but because of financial market conditions the plans were deferred—perhaps until later this year. The direct capital obligations of the company consist of 925,935 shares of $5 dividend preferred stock in the hands of the public as well as 1,823,269 shares of common and common stock warrants for the purchase of 1,347,748 shares. At the close of 1939 total current assets were $49,355,128 and more than 3.5 times larger than total current liabilities. Since that date the company reported that it had cut bank debts of itself and its subsidiaries by $4,700,000 to the end of June. Inventories—which were about half of the total current assets—were low.

OUTLOOK: The demand for all types of paper and pulp continues to be good and prices show no sign of sagging from their currently profitable levels. Favored by the ability to produce its own pulp requirements and by new processes which increase the value of its large kraft paper production capacity, the company should continue to operate in a highly satisfactory and profitable manner.

MARKET ACTION:

	International Paper	Market Average	Int'l Paper's moves in relation to avge.
'37 high to '38 low..........	79% decline	64% decline	23% wider
'38 low to '38 high..........	256% advance	76% advance	237% wider
'38 high to '39 low..........	58% decline	34% decline	71% wider
'39 low to '39 high..........	131% advance	44% advance	198% wider

Average volatility on four moves 47% greater on declines and 217% greater on advances than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—16⅛. This year's earnings will probably reach an all-time high for the capitalization as it now stands.

Long-Term Record

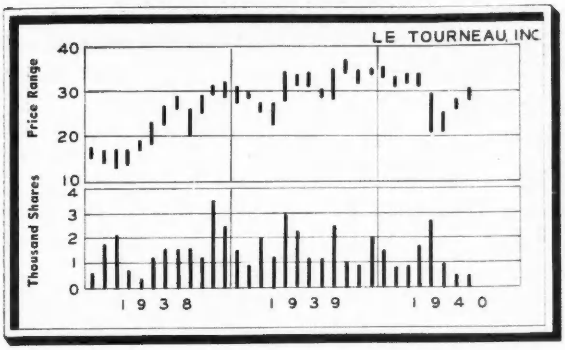
Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Price Range
1932....................	$129.53	$ 8.76	xx	xx
1933....................	135.34	d3.94	xx	xx
1934....................	86.50	d3.40	xx	xx
1935....................	95.43	d3.32	xx	xx
1936....................	113.23	5.02	xx	xx
1937....................	123.49	9.13	$2.47	19¼-16¼
1938....................	98.22	.12	d2.47	15⅛- 4¼
1939....................	122.29	4.89	0.14	14¾- 6⅜
1st ½ 1940..............	77.21	(a)6.90	2.51	x21¼-10⅛
1st ½ 1939..............	52.11	.09	d	....

x 1940 to date. (a)—After $2,000,000 tax reserve. xx—Prior to recapitalization. d—Deficit.

Thumbnail Stock Appraisal

to Five Times Earnings

R. G. LE TOURNEAU, INC.



BUSINESS: The company makes a line of modern tractor-drawn earth-moving tools which are in good demand for the construction of highways, airports, earth-dams, canals, reservoirs, levees, land clearing and leveling as well as foundation digging and logging. The government has been a large buyer of Le Tourneau products for the numerous Federal projects and the plans for the construction of new airports and other quasi-military projects as well as those projects which are designed more for increased industrial production all favor an increased demand for Le Tourneau's unique machines. The company has always searched diligently for new uses for its machines and these searches have resulted in a constantly widening circle of application.

FINANCIAL POSITION: A capital stock issue of 500,000 shares of $1 par value constitutes the only capital obligation of the company. At the close of 1939 there were $400,000 of bank loans outstanding. At the same date, total current liabilities of $1,262,365 were only about 35% as large as total current assets. Cash on hand of $363,057 was relatively small in comparison with inventories of $2,510,014 although the amount of cash appears to be in keeping with the policy of the management. Seven months ended July 31 reports indicate that the business was still running well ahead of a year ago, although the difference—which was wide in the earlier part of this year—is narrowing. By the end of the current 7-month period earnings per share were approximately $2.99 a share as compared with $2.43 a year ago. Business is not likely to decline in the remaining 5 months, but in view of new profits taxes it is not likely that earnings will reach $6 a share as estimated in some quarters. Nevertheless, it is probable that they will be close to those of 1939, which set a new record.

OUTLOOK: The company's business should continue to be good as long as preparedness business is available. After this is out of the way the company will have to depend upon the activities of general industry. In the interim, very good earnings should be reported.

MARKET ACTION:	Le Tourneau, Inc.	Market Average	Le Tourneau's moves in rel. to avg.
'37 high to '38 low	67% decline	64% decline	.05% wider
'38 low to '38 high	146% advance	76% advance	.92% wider
'38 high to '39 low	31% decline	34% decline	.09% wider
'39 low to '39 high	68% advance	44% advance	.54% wider

Average volatility on four moves 7% greater on declines and 73% greater on advances than the M. W. S. index of 309 common stocks.

COMMENT: Recent price—28. Despite prospects of new high earnings, shares are currently selling but 30% above the year's low point.

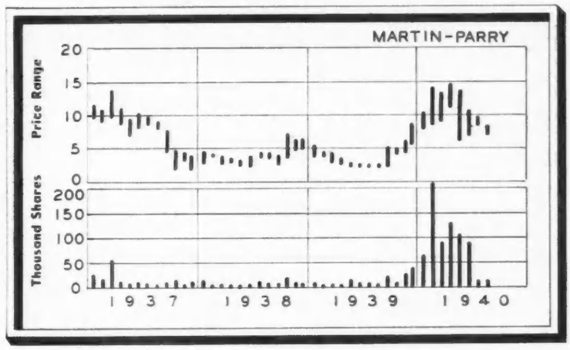
Long-Term Record

Year	Net Sales (millions)	Net Profit (millions)	Net Per Share (a)	Dividends (a)	Price Range
1932	$.207	$.052	$0.12	....	....
1933	.379	.113	0.25	....	....
1934	.930	.340	0.76	$0.03	....
1935	2.005	.586	1.30	0.10	....
1936	4.392	1.364	3.03	3.00	....
1937	5.674	1.263	2.81	2.50	39½-13½
1938	6.247	1.412	3.13	1.25	32 -13
1939	7.731	1.816	4.03	1.00	37 -22
7 mos. 1940	5.475	1.346	2.99	x0.75	x35½-21
7 mos. 1939	4.374	1.096	2.43	0.75	....

x1940 to date. (a) Adjusted to present capitalization.

Thumbnail Stock Appraisal

MARTIN-PARRY CORPORATION



BUSINESS: Up until 1930 Martin-Parry Corp. made automobile bodies. In that year, however, General Motors purchased the body plant and the company devoted its efforts to the manufacture of drawn metal specialties which include windshield frames, house construction members, kalamein doors and panels in which is bonded a fibre for partitions, window and door frames and pre-fabricated metal houses. While all of these products are in fair demand, the one product that is probably most responsible for the sharp uptrend in earnings since the outbreak of the war is the company's device by which a French 75 mm gun is adapted to motorized transportation.

FINANCIAL POSITION: Through the privilege of converting the company's bonds into common stock, the funded debt has been reduced to about $250,900 (May 31) and the common stock outstanding has been increased from 178,850 shares at the close of the 1939 fiscal year to 199,550 shares on the later date. The bonds, which were due in 1944 may all be exchanged prior to that date if the market price of the common shares continue to sell well above conversion levels. As a result of sharply better earnings, the financial condition of the company has improved markedly since the close of the 1939 fiscal year on August 31. As of May 31, 1940, total current assets were shown at $1,114,112 as compared with $243,141 a year earlier. During the 9-month period, profit and loss deficit of $570,237 has been reduced to $54,660 and in the remaining quarter of the fiscal year it is likely that a surplus has been established. Current liabilities of $261,-624—while substantially higher than a year before—were nevertheless exceeded by cash items of $945,098 by a wide margin.

OUTLOOK: From the time that the company disposed of its body-building business to General Motors operations were not profitable until the outbreak of the war. It is therefore obvious that this company is one of the few that has benefitted from war business. Moreover, should the demand for military products subside it is probable that the company's business would relapse into its former condition.

MARKET ACTION:	Martin-Parry	Market Action	Martin-Parry's moves in rel. to avg.
'37 high to '38 low	83% decline	64% decline	30% wider
'38 low to '38 high	217% advance	76% advance	186% wider
'38 high to '39 low	72% decline	34% decline	112% wider
'39 low to '39 high	406% advance	44% advance	822% wider

Average volatility on four moves 287% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—9¼. The price of the shares reflect the uncertainties as ot the company's future business.

Long-Term Record

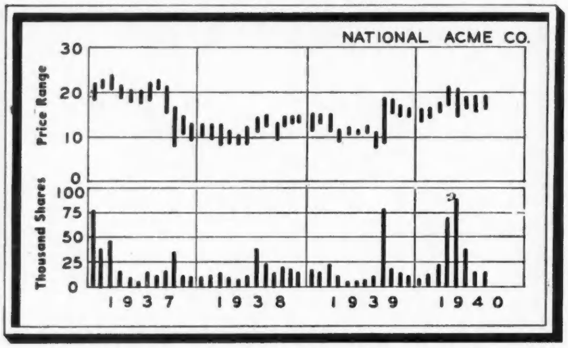
Year*	Net Sales (millions)	Net Income (millions)	Net Per Share	Price Range
1932	$.03	d$.18	d$1.48	¾- ¼
1933	.22	d .02	d0.13	7⅞- ½
1934	.40	d .08	d0.60	12⅜- 4
1935	.20	d .13	d1.14	11 - 4
1936	.09	d .16	d1.28	12 - 6½
1937	.08	d .18	d1.05	13⅞- 1¾
1938	.33	d .06	d0.33	7⅛- 2¼
1939	.37	d .06	d0.33	10⅛- 2
9 mos. 1940	NF	.57	2.86	x14¾- 6⅛
9 mos. 1939	NF	.09	d0.50	....

*Fiscal year ends August 31. d—Deficit. x—1940 to date. NF—Not available.

Thumbnail Stock Appraisal

Six Stocks Priced at Three to Five Times Earnings

NATIONAL ACME COMPANY



BUSINESS: As a supplier of screw, tapping machines, industrial centrifuges, threading tools, counters, timers and similar devices to many types of manufacturers, National Acme is experiencing good demand from its principal customers—automobile, aviation, railroad and electrical equipment manufacturers—because of the strong tone of their individual businesses. In addition to machines, National Acme also makes airplane wheels and brake-drums as well as other screw machine products. The company's lathes and screw machines are sold under the trade name of "Acme-Gridley."

FINANCIAL POSITION: Due to anticipation of notes which mature this year the funded debt is now $649,500 and is the sole capital obligation ahead of the 500,000 shares of common stock which are currently outstanding. At the close of 1939, the company's financial position was good with current assets of $5,459,804 being better than three times larger than current liabilities. Inventories at the close of the year were about 10% greater than in 1938 but were reasonable at $3,363,802. Since that date the funded debt has been reduced by about $300,000 but because of capacity operations so far this year and markedly better earnings in the first half it is probable that working capital has not been impaired. Last year National Acme paid $0.50 in dividends on the common stock and so far this year a distribution of $0.25 a share has been made.

OUTLOOK: Some approximation of the activity of the company is gained from the half year earnings statement which showed earnings of $2.47 a share of common stock as compared with only $0.22 a share for the same period of a year ago. The company's ability to manufacture airplane parts as well as its more intricate machinery makes it probable that all of its facilities could find active employment in other fields should the current high demand for machinery of the type made by the company subside. It is likely that demand for aviation parts will continue to expand to a point where it may be necessary for the company to increase its production facilities.

MARKET ACTION:	National Acme Co.	Market Average	National Acme's moves in rel. to avg.
'37 high to '38 low..........	66% decline	64% decline	3% wider
'38 low to '38 high..........	83% advance	76% advance	9% wider
'38 high to '39 low..........	47% decline	34% decline	38% wider
'39 low to '39 high..........	138% advance	44% advance	213% wider

Average volatility on four moves 66% greater than M. W. S. index of 309 comnom stocks.

COMMENT: Recent price—20. Although selling about 7% below the year's high the shares are still well above recent year's highs.

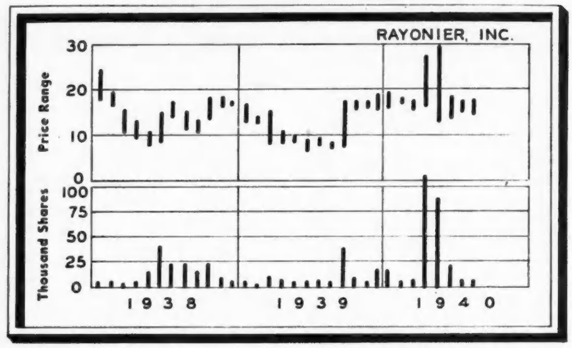
Long-Term Record

Year	Gross Profits (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932..........	d$.10	d$.90	d$1.80	....	5¼- 1¼
1933..........	.30	d .31	d0.62	....	7¾- 1⅛
1934..........	.87	.14	0.28	....	8⅞- 3⅛
1935..........	1.03	.26	0.51	....	14⅝- 4½
1936..........	1.78	.69	1.38	$0.75	19½-12½
1937..........	3.14	1.43	2.85	1.00	24 - 8
1938..........	1.02	.18	0.37	0.25	14⅞- 8⅛
1939..........	4.51	.59	1.16	0.50	18¾- 7⅞
1st ½ 1940....	NF	1.24	2.48	x0.25	x21½-13½
1st ½ 1939....	NF	.11	0.22	....	....

d—Deficit. NF—Not available. x—1940 to date.

Thumbnail Stock Appraisal

RAYONIER, INCORPORATED



BUSINESS: Rayonier, Inc., makes wood pulp and paper. But all of the wood pulp is not that ordinary material which is suitable mostly for the making of paper but a very superior wood pulp that is eminently fitted for conversion into rayon by the acetate process. The importance of this type of wood pulp has been accentuated by the fact that in the past most of it came from now German-dominated Scandinavian countries and is no longer available in adequate quantities. Recently, the company announced that it can make a similar high grade pulp from southern pine, an equally difficult and important accomplishment.

FINANCIAL POSITION: There is no funded debt but as of April 30, 1940—the end of the company's fiscal year—there were $7,100,000 of unsecured notes outstanding of which $600,000 was due within one year. Current assets of $7,067,022 were about 2½ times as large as total current liabilities of $2,744,604, which included the $600,000 of short term notes mentioned above. Cash items of $932,428 were ample for the company's purposes while paper and pulp inventories of $2,904,669 were low in view of the demand for such products. About 626,205 shares of $2 dividend preferred stock and 963,871 shares of common stock complete the capital structure. The preferred stock is convertible into common stock share for share. All but $1 a share accumulated dividends on the preferred stock were eliminated this year.

OUTLOOK: Until last year, Japan was the best customer for Rayonier's rayon pulps. When Japan was no longer able to take heavy volumes of pulp the company was fortunate in having domestic demand increase sharply. The rayon industry's inability to obtain an ample supply of suitable pulp from abroad makes Rayonier's position considerably stronger and promises full employment for its entire production capacity. While business in the fiscal year which ended last April was good, it will probably be bettered this year by a substantial margin which should result not only in bettering the earnings for the common stock but eventual common dividends.

MARKET ACTION:	Rayonier, Inc.	Market Average	Rayonier's moves in relation to avgs.
'37 high to '38 low..........	68% decline	64% decline	6% wider
'38 low to '38 high..........	201% advance	76% advance	164% wider
'38 high to '39 low..........	73% decline	34% decline	115% wider
'39 low to '39 high..........	186% advance	44% advance	323% wider

Average volatility on four moves 152% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—18¾. The company has just reported the best first quarter earnings since its incorporation.

Long-Term Record

Year*	Gross Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1931..........	$4.43	$.375	d$1.69	....	....
1932..........	6.65	.100	d1.20	....	....
1933..........	4.63	.694	d2.03	....	....
1934..........	8.54	.860	d0.41	....	....
1935..........	10.42	1.393	0.15	....	....
1936..........	11.40	1.855	0.63	....	....
1937..........	13.28	2.243	1.03	....	26 -20
1938..........	17.50	3.125	1.94	$0.50	24½- 8⅛
1939..........	10.05	1.177	d0.08	....	19 - 6⅝
1940..........	16.29	2.389	1.18	....	x29⅞-13½

* Fiscal year ends April 30. d—Deficit. x—1940 to date.

Thumbnail Stock Appraisal

Makers of Industrial Sinews—American Chain and Cable Co.

Earnings Sharply Higher

BY J. C. CLIFFORD

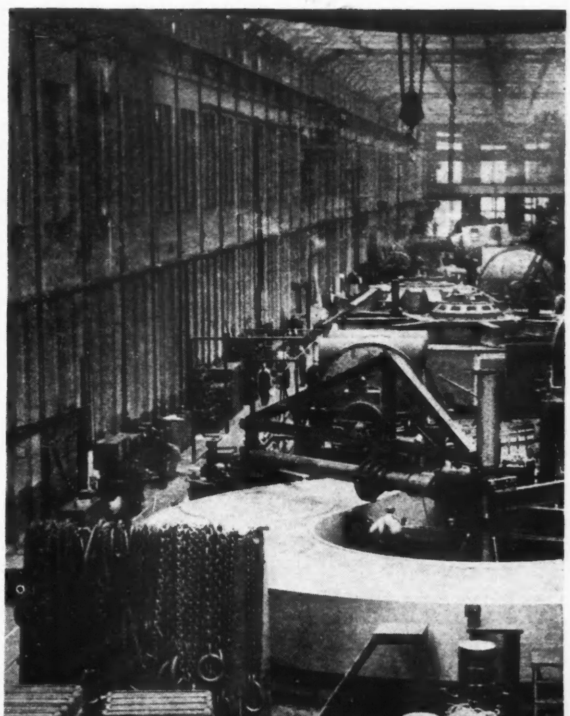
Of all the various types of chains that American Chain & Cable Co. makes, the Weed, non-skid, automobile tire chain is perhaps the one item most familiar to the public. For a time—before many competitive products appeared—the name Weed was synonymous with tire chains and even today many continue to regard the Weed chain as the most desirable chain of its type. But American Chain is not by any means a one product company. Chains alone include not only several other types of skid-chains for competitive purposes but also a complete line of chains for every other purpose, ranging from the heaviest marine anchor chain to the small chains used in the plumbing trade. The railroads, utilities, miners, lumberers and many other industries are all good customers for American Chain products.

In addition to manufacturing chains, the company also makes a line of automobile accessories and parts, wire fences, welding rods, steel and malleable iron castings, mattress and cushion springs, air compressors, garage equipment, hoists, wire rope and cables and, to add further diversification, razors and blades for the Schick Repeating Razor. Moreover, various patents owned by the company are substantial contributors to income through license agreements with other manufacturers.

Being closely geared to heavy industry, sales are naturally cyclical, conforming generally to the trend of capital goods activities. Nevertheless, mostly because no one product contributes more than 20 per cent to income, sales have been maintained at high levels even in the poorest years. During the past ten years only 1931, 1932 and 1933 witnessed a deficit after payment of fixed charges and only in 1932 were operating losses substantial. Recent years' sales have followed the general industrial pattern with the recovery in volume from 1932 being interrupted in but one year (1938) and resumed again in 1939 when gross sales totaled $24,267,617 as compared with $19,079,931 in 1938 and $28,710,663 in 1937.

The current year gives evidence that last year's gains are continuing. Net sales in the first six months totaled $12,365,502, $1,760,000 higher than a year ago and nearly $3,500,000 better than in the same period of 1938. On the same basis it is probable that 1937 post-depression sales of $28,710,663 will be exceeded by a comfortable margin this year.

American Chain & Cable Co. has been quick to take advantage of the times to consolidate and simplify its capital structure with the result that interest charges, which amounted to $437,263 per annum in 1933, have been completely eliminated and preferred stock dividend requirements, which amounted to somewhat more than $480,000 in the same year (*Please turn to page* 702)



Westinghouse Photo

Chain hoists and cables carry heavy industry as it goes into "all-out" production.

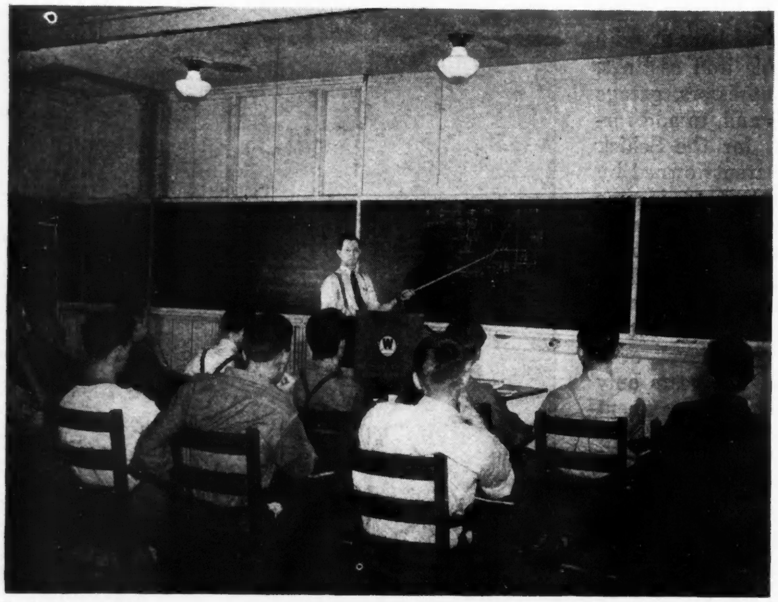
For Profit and Income

Rail Legislation

Passage of the Transportation Bill by Congress gives the rails some of what they had long been hoping to receive, among other things the inclusion of inland waterways under I. C. C. regulation. It also sets up a Board to study the long term needs of transportation in this country and permits voluntary consolidation efforts by the carriers. The R. F. C. is to be permitted to purchase bonds of solvent roads with its own money or to lend the money to the roads themselves for that purpose. How much of this will actually be done is problematical, since the news that such a step was in contemplation would probably push prices up beyond the point where they would be attractive for the purpose. Objections to this on the part of holders of second grade rail bonds are not likely to be encountered.

New Records in Steel

Output of steel for the first eight months of this year amounted to 40,306,231 net tons. The year is still behind 1929, with 43,485,000 tons in the first eight months and behind 1937 with 42,776,000 tons in the same period. However, it seems virtually certain that the records for both those two years and all others will be smashed, since they were made despite a slump in the closing months of the year. August production was at a rate of better than 6,000,000 tons—a figure which was never reached in 1929 boom.



Westinghouse Photo

Individual preparedness programs are going on all over the country. Here is a class conducted by Westinghouse Electric to train high school graduates to become skilled mechanics. Students will soon number 500. A new record in unfilled orders for Westinghouse is additional incentive to tackle the skilled labor bottleneck.

Commercial Magicians

National Dairy Products has been devoting itself assiduously to the cause of chemurgy for several years, helping the over-productive farmer dispose of his surpluses by finding new uses for familiar material. The latest is a method for turning cheese whey into wine, both sauterne and sherry types having been achieved. Some other company will presumably set at once to work to find some use for the grapes thus threatened with loss of markets. So far as known, there has not yet been any attempt to feed the grapes to cows; nor to use the cheese-whey wine as port has long been used to add a flavor to Stilton cheese.

Open Market Re-Purchases

For a company to purchase its own stock is not as common a procedure as in the past, and there are many arguments both ways as to whether or not it is an entirely good thing. Yet for certain types of enterprises this is a logical use for cash; it frequently turns out well in the long run; and it is undoubtedly a help in stabilizing the market for the stock and therefore a boon to stockholders. **International Mining** reports that between April 26 and August 27 it bought 25,900 shares of its own stock on the open market for $134,-662. The average price was thus around $5.20 a share as compared with current quotations of 4⅛. However, at current dividend rates the company is saving close to 10 per cent on its money and may yet

come out with a profit on the principal amount.

Other companies to acquire their own stock during August were **Atlas Corp.** (common and preferred), **Barnsdall Oil, Interlake Iron, Seaboard Oil, Shell Union,** and **Paramount Pictures,** which bought its two preferred issues.

Old-Timers in the Black

Two former blue chips succeeded last month in reporting black figures for the year to date as against deficits in the same part of 1939. **New York Central** had a deficit for the first seven months of $92,602, then is estimated to have earned somewhere close to $1,000,000 in August. In the first eight months of 1939, Central had a net deficit of $8,900,000. **Western Union** reported a net profit for the seven months ended with July of $1,582,248, as compared with a loss of $481,909 in the same part of 1939. August saw further additions to the net income for the year to date, but starting with the current month comparisons may not be quite so favorable, since a year ago the war was causing a substantial flurry in domestic and international messages.

Rights Unappreciated

Admission of **Dow Chemical** rights to trading on the Stock Exchange on a when-issued basis was the signal for a flurry of selling in both the stock and the rights. On trading of 3,800 shares the stock opened at 143 and closed at 133½ the low for the year. The rights opened at 4 and closed at 3, with 53,200 of them traded. The whole affair is reminiscent of Montgomery Ward's fiasco of several months ago, when the company attempted to market stock at 40 without underwriters. However, Dow Chemical is still substantially above the subscription price and the issue appears to have a much better chance than did the Montgomery Ward attempt.

Example of Improved Markets

Republic Steel old convertible preferred was moved to Post 30 some time ago, and since then trading in the issue has been several times as active as formerly. The stock can now be traded and quoted in ten share units and as a result the bids and offers are spaced only a point or so apart as compared with spreads as high as six or seven points when 100 shares was the unit of trading. All of which bears out this Magazine's contention of long standing that a smaller unit in the case of inactive high price issues helps the Exchange and its members by allowing greater activity and helps the customers by providing a closer, fairer market for their transactions. If Republic Steel preferred had been left at its regular post and changed to a unit of, say, 25 shares, results would probably have been still better all around.

Threatening or Breaking Previous 1940 Highs

Company	1940 Range High	1940 Range Low	High Sept. 5, 1940	1939 High	First Half Earnings 1939	First Half Earnings 1940
Amer. Loco. Pfd.	63	38	61	79½	d2.65	3.35
Bower Roller Bearing	37¼	26	35½	34¾	1.43	2.23
Briggs Mfg.	23¾	13¼	22⅜	31⅞	1.03	2.14
Budd Mfg. Pfd	44¾	21	43	55½	4.62	16.90
Budd Wheel	6¼	3⅛	5¾	6¼	0.27	0.49
Bullard Co	33¾	20	33¾*	30	0.16	4.35
Bulova Watch	33	17⅝	32½	34¼	0.81 Je 3	1.70 Je 3
Carpenter Steel	32¾	22⅛	31¾	33	0.44 mr 9	2.87 mr 9
C. & O.	42⅜	30½	41¾	47¼	0.67	2.01
Congress Cigar	13¼	8	13	9⅞	NF	NF
Crucible Steel Pfd	95	64	94½	96	1.47	10.07
Electric P. & L. 6 Pfd	34⅝	15⅝	33¾	38	5.72 my 12	8.50my 12
Electric P. & L. 7 Pfd	38⅜	18½	37½	41½	5.72 my 12	8.50my 12
Foster Wheeler Pfd	89	61	85	90¾	d8.08	21.21
Gamewell Co	20	12	20*	15½	NF	NF
Great No. Ry. Pfd	28⅞	15¼	27⅞	33¾	d1.36	d0.26
Jones & Laughlin Pfd	75⅛	48½	75⅛*	83	d1.44	5.58
National Power & Lt	8⅞	5⅝	8⅛	10	0.39	0.62
Norfolk & Western	226½	175	217	217	5.62	10.66
Reliable Stores	8	6⅝	7⅞	10	d0.26	0.12
Republic Steel Co. Pfd.	95¾	70⅛	95	95¾	1.98	46.85
Reynolds Spring	11¼	6⅛	10¾	11⅜	0.39	2.04
Richfield Oil	8⅜	5⅞	8	10¼	0.30	0.53
Starrett, L. S.	34¾	23	34¾*	36	....	....
Timken Detroit Axle	28¼	18	28¼*	25	0.99	NF
Woodward Iron	27⅞	15¾	27	31¾	0.87	2.77
Worthington Pump Pr. Pfd.	46⅞	29	46½	23⅛	d1.75	2.95

* New high Made 9/5/40. d — Deficit. NF — Not available. Je 3 — 3 months ended June. My 12—12 months ended May. Mr 9—9 months ended March.

Short Covering

The short interest on the Stock Exchange dropped last month about 5,000 shares to a total of 474,033. Covering was revealed in **Armour of Illinois** from 12,200 shares to 6,400, and **Consolidated Oil,** from 13,385 to 229, and **Baldwin Locomotive** from 13,075 to 9,445 and in **Copperweld Steel** from 2,584 to 300 shares. Both of the leading motors received an increased amount of attention from the shorts, the bear position in **Chrysler** growing more than 3,000 shares to 28,827 and that in **General Motors** almost 5,000 shares to 29,011. Larger short positions against the trend were also noted in **Anaconda Copper, Aviation Corp., Willys Overland** and both common and preferred issues of **International Paper.**

Bombs in Throgmorton Street

The London stock market continues a mystifying affair. Even before the agreement between the United States and Great Britain to exchange destroyers for bases, London stocks and English Treasury bonds had pursued a firm course. Recently, despite the "all-out" German air attacks, British war loans 3½s have risen above par, as compared with twenty points lower a year ago. Rails, of course, have been a doubtful quantity, as would be expected with bombs aimed at their tracks and equipment. Industrials have reached a level 30 per cent above that of last June.

Whereas the New York stock market reached its high on Thursday September 5 and then turned down on Friday and Saturday and into the next week, London held up and made its high for the move two days later than New York and lost less than a point in the average of the London Financial Times through the first half of the week that witnessed the most intensive aerial bombing of the war.

Know What Action to Take . . .
IN TODAY'S WAR MARKETS

Fast, Definite Telegraphic Service Advises You What and When to Buy and When to Sell . . . When to Contract or Expand Your Position

IN today's swiftly changing markets . . . sensitive to kaleidoscopic developments here and abroad . . . you must be prepared to act . . . promptly and accurately . . . to preserve your capital . . . to take advantage of outstanding security situations.

Miniature bull and bear movements are now compressed in weeks which formerly took months. Your market policy should be geared to these swings. They represent excellent opportunities for capital growth, but you must contract or expand your position as they develop.

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FORECAST service is particularly suited to your needs in today's war markets . . . a source of reassurance to which you can turn. It is an established service started in October 1917 . . . during the last war . . . and proven practical in all types of markets over the past 22 years. Through fast, definite telegraphic service, it will advise you **what** and **when to buy** and **when to sell** . . . through specialized programs, comprising a fixed number of selected securities according to your capital, wishes and objectives. Correct timing is fully recognized as vital to successful investment today.

As the current war tension abates, a dynamic market advance can get under way. It would take a rise of 50% in the averages to fully reflect corporate profits and business activity now at 1929 and 1937 levels . . . with 15 Billion Dollars of armament spending to act as a cushion and powerful stimulant. Selected stocks . . . in growing companies and industries . . . are materially undervalued on earnings and dividends, so that substantial gains can quickly occur.

Now is the Time to Act

Proper action on your present portfolio now may determine your capital status for months and perhaps years to come. Our first step in serving you will be to appraise your present securities in the light of our huge National Defense Program and Excess Profits Taxes. This report and our continuous consultation may be worth hundreds of dollars to you.

As an added incentive to enroll with THE FORECAST, we extend to you our Special Offer of Free Service to October 15. Through our specific recommendations, you can prepare to recoup losses and take a profitable position as a base is established and new market leaders can be bought at large discounts from their potential near-term values.

THE INVESTMENT AND BUSINESS FORECAST
of The Magazine of Wall Street

90 BROAD STREET CABLE ADDRESS: TICKERPUB **NEW YORK, N. Y.**

I enclose ☐ $75 to cover a six months' test subscription ☐ $125 to cover a full year of The Investment and Business Forecast with service starting at once but dating from Oct. 15, 1940. I understand that regardless of the telegrams I select, I will receive the complete service by mail. ☐ Check here if FREE Air Mail is desired in the United States and Canada where it expedites delivery of our bulletins.

Send me collect telegrams on all recommendations checked below. (Wires will be sent you in our Private Code after our Code Book has had time to reach you.)

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Continuous Consultation. Submit Your Securities for Our New War Economy Analysis.

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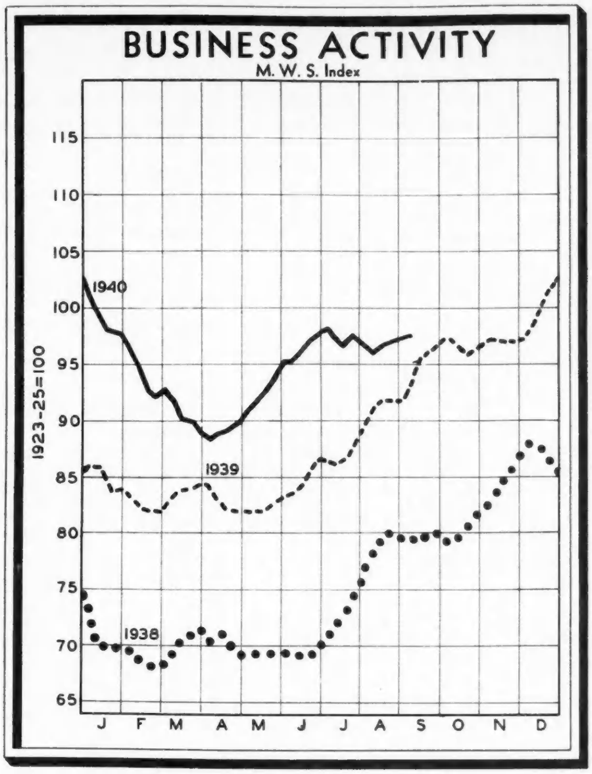


CONCLUSIONS

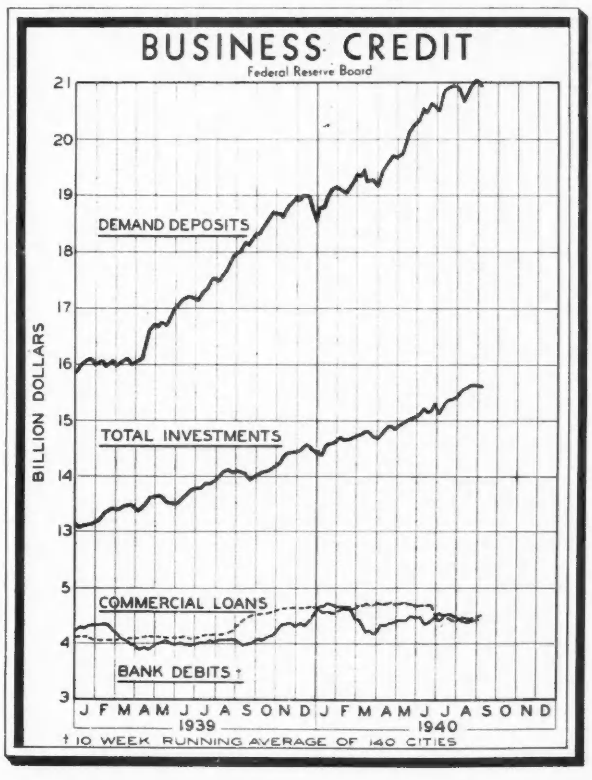
INDUSTRY — Defense preparations spur building operations.

TRADE — Sales by manufacturers, wholesalers and retailers sharply ahead of last year.

COMMODITIES — Tone generally firmer. Inventory buying gains momentum.

MONEY AND CREDIT — Business loans increase; gold stocks at new high. New financing active.

The Business Analyst



Per capita **Business Activity** has made further fractional gains during the past fortnight, with all components of this publication's index, save carloadings and soft coal production, reporting somewhat better than normal seasonal improvement. The average for August was around 77, compared with 97.4 in July and 91.4 for August 1939. Adjusted to the basis on which the Federal Reserve Board's new index of **Industrial Production** is computed, our own index for August averaged 118, against 119 in July.

* * *

Consequences of far-reaching importance to domestic business are likely to flow from the diplomatic deal announced since our last issue, which provides for the delivery of outmoded destroyers to Great Britain in exchange for 99-year leases to the United States of sites for naval and air bases in England's island possessions along the Atlantic Coast. The bases will add materially to our own security, while the destroyers will strengthen England's resistance and so give us more time to prepare. Of even greater moment is the accompanying assurance that England will never scuttle or surrender her fleet, thereby indicating that the United Kingdom plans to carry on even if the British Isles should eventually have to be abandoned. In

(Continued on following page)

Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	July	121	121	104
INDEX OF PRODUCTION AND TRADE (b)	July	91	91	84
Production	July	91	90	83
Durable Goods	July	83	81	65
Non-durable Goods	July	96	96	94
Primary Distribution	July	90	90	79
Distribution to Consumers	July	93	96	89
Miscellaneous Services	July	88	89	85
WHOLESALE PRICES (h)	Aug.	77.0	77.6	74.9
INVENTORIES (n. i. c. b.)				
Inventories	July	134	132	111
New Orders	July	131	117	90
Shipments	July	116	109	91
COST OF LIVING (d)				
All Items	July	86.3	86.4	84.9
Food	July	80.9	81.7	78.1
Housing	July	86.8	86.8	86.3
Clothing	July	73.1	73.1	71.9
Fuel and Light	July	84.5	84.2	83.8
Sundries	July	97.4	97.0	96.9
Purchasing value of dollar	July	115.9	115.7	117.8
NATIONAL INCOME (cm)†	1st 7 mos.	$41,600	......	$39,578
CASH FARM INCOME†				
Farm Marketing	July	$668	$577	$605
Including Gov't Payments	July	703	587	641
Total, First 7 Months	July 31	3,950	......	3,591
Prices Received by Farmers (ee)	July	95	95	89
Prices Paid by Farmers (ee)	July	122	123	120
Ratio: Prices Received to Prices Paid (ee)	July	78	77	74
FACTORY EMPLOYMENT (f)				
Durable Goods	July	95.5	97.0	82.1
Non-durable goods	July	103.3	101.7	98.5
FACTORY PAYROLLS (f)	July	96.4	97.9	83.8
RETAIL TRADE				
Department Store Sales (f)	Aug.	100	91	89
Chain Store Sales (g)	Aug.	122	119	113
Variety Store Sales (g)	Aug.	127.6	124	116
Rural Retail Sales (j)	July	132.1	137.7	124.8
Retail Prices (s) as of	Aug. 1	92.9	92.9	89.3
FOREIGN TRADE				
Merchandise Exports†	July	$317.0	$350.5	$229.6
Cumulative year's total† to	July 31	2,384.6	......	1,645.7
Merchandise Imports†	July	232.3	211.4	168.9
Cumulative year's total† to	July 31	1,526.0	......	1,263.4
RAILROAD EARNINGS				
Total Operating Revenues★	1st 7 mos.	$2,361,674	......	$2,136,562
Total Operating Expenditures★	1st 7 mos.	1,759,555	......	1,642,706
Taxes★	1st 7 mos.	226,469	......	202,138
Net Rwy. Operating Income★	1st 7 mos.	229,516	......	214,620
Operating Ratio %	1st 7 mos.	74.50	......	76.89
Rate of Return %	1st 7 mos.	2.31	......	1.66
BUILDING Contract Awards (k)	Aug.	$415	$399	$312
F. H. A. Mortgages				
Selected for Appraisal†	Aug.	122.0	119.7	98.5
Accepted for Insurance†	Aug.	89.4	88.1	62.3
Premium Paying†	Aug.	64.4	60.3	65.1
Building Permits (c)				
214 Cities†	Aug.	102.0	112.2	91.8
New York City†	Aug.	14.0	12.6	26.0
Total, U. S.†	Aug.	116.1	124.5	117.8
Engineering Contracts (En)†	Aug.	357.8	348.9	231.8

PRESENT POSITION AND OUTLOOK

(Continued from page 689)

its longer range implications the agreement foreshadows continually growing cooperation between the two English speaking peoples as time goes on, with prospects of a long war in which the United States will render all possible support short of sending troops overseas. If this promise is correct, domestic business is headed for a prolonged boom.

* * *

During the first year of the Nazi-British war, Great Britain has ordered $2,000,000,000 worth of goods from the United States, and expects to order fully as much during the second year. Merchandise **exports** in July were $87,000,000 ahead of the like month of 1939; but shipments to Canada and the United Kingdom increased $99 millions, and accounted for 54% of our total exports. Non-agricultural **employment** has risen a million within the past twelve months; yet there are still 5.5 millions of idle workers available for the nation's defense industries, of which 3 millions are expected to be required by July 1, 1941, while military training will reduce unemployment (now estimated at 8,235,000) by an additional million.

* * *

Raw material prices, which have now come into comparison with the sharp speculative bulge of last September, average at present writing about 7% below last year; though cotton, corn, iron and zinc still show increases ranging from 2% to 14%. **Wholesale prices** average 3.2% higher than a year ago; but **living costs** are up only 1.6%. **New orders** booked by manufacturers during July were 20% heavier than a year earlier. **Wholesale sales** gained 10.5%, with month-end **inventories** up 7.3%. **Chain store sales** during August were 13% above last year; with **mail order sales** rising 12%, and **variety store sales** gaining 5.6%. **Department store sales** in the week ended Aug. 31, and for four weeks, were 10% above last year.

* * *

Railroad gross revenues in July were only 1% above the like period last year, compared with a seven-months' rise of 11%, while net operating income showed a gain of only 1 % against a seven-months' increase of 42%. The industrial carriers appear to be entering upon the best traffic in a decade owing to prospects of a rising volume of heavy freight, not suitable for shipment by truck, originating with plants engaged in home defense activities. Longer range prospects for the rails have been considerably brightened by last week's enactment of the Wheeler-Lea omnibus transportation bill, which embodies a number of constructive provisions.

* * *

For some months to come, **construction** activities will continue to be greatly stimulated by home defense preparations. **Building permits** granted during July were 17% ahead of the like period in 1939, compared with a cumulative gain of only 0.3% for seven months; while **engineering construction** contracts awarded in the week ended Sept. 5 were 47% above last year, against a gain of only 5% for the year to date.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Aug.	6,033	5,595	3,764
Pig Iron Production in tons★	Aug.	4,238	4,054	2,660
Shipments, U. S. Steel in tons★	Aug.	1,456	1,297	886
AUTOMOBILES				
Production				
Factory Sales	July	231,703	344,636	209,343
Total 1st 7 Months	July 31	2,660,231	......	2,171,256
Registrations				
Passenger Cars, U. S. (p)	1st 6 mos.	1,814,814	......	1,409,102
Trucks, U. S. (p)	1st 6 mos.	291,118	......	248,826
PAPER (Newsprint)				
Production U. S. & Canada★ (tons)	Aug.	403.2	415.3	317.0
Shipments, U. S. & Canada★ (tons)	Aug.	413.9	423.7	303.4
Mill Stocks, U. S. & Canada★ (tons)	Aug. 31	178.9	189.6	232.6
LIQUOR (Whisky)				
Production, Gals.★	July	5,200	8,187	3,711
Withdrawn, Gals.★	July	5,475	8,337	4,334
Stocks, Gals.★	July	479,189	480,945	477,149
GENERAL				
Paperboard, new orders (st)	June	437,874	517,221	383,371
Machine Tool Operations	Aug.	93.3	88.3	......
Railway Equipment Orders (Ry)				
Locomotive	Aug.	65	51	5
Freight Cars	Aug.	7,645	5,846	315
Passenger Cars	Aug.	102	36	None
Cigarette Production†	July	15,913	17,565	14,260
Bituminous Coal Production★ (tons)	Aug.	39,240	36,080	35,016
Portland Cement Shipments★ (bbls.)	July	13,552	13,247	11,757
Commercial Failures (c)	Aug.	1,128	1,175	1,126

PRESENT POSITION AND OUTLOOK

While the **automobile** industry has been rather tardy thus far in getting into production on 1941 models, all but two companies have now resumed operations; so that output should rise rapidly henceforth, reaching near capacity sometime next month. General Motors' sales to domestic consumers last month were 45% above the total for August, 1939.

* * *

Railroad equipment orders in the first eight months, compared with the like period of 1939, numbered 24,076 **freight cars,** against 9,392; 301 **locomotives,** against 161; and 161 **passenger cars,** against 174. Present prospects are that total freight car orders this year will about equal the 52,734 ordered last year. Government enforced priorities will probably soon supersede the present voluntary system in the **machine tool** industry, a change that will be welcomed by producers as an aid to preserving customer goodwill.

* * *

New orders for **paperboard** in the first seven months were 56% above last year. **Portland cement** shipments in July were 15.3% larger than a year earlier, with production off 2.7% and month-end inventories up 1.7%. **Whisky** withdrawals during July were 26% heavier than last year, leaving warehouse stocks up only fractionally.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Sept. 7	97.4	97.3	92.9
ELECTRIC POWER OUTPUT				
K. W. H.†	Sept. 7	2,463	2,601	2,290
TRANSPORTATION				
Carloadings, total	Sept. 7	695,258	768,821	667,409
Grain	Sept. 7	36,775	37,333	36,297
Coal	Sept. 7	118,413	138,474	124,600
Forest Products	Sept. 7	34,457	38,637	30,003
Manufacturing & Miscellaneous	Sept. 7	276,247	303,664	266,819
L. C. L. Mdse	Sept. 7	134,181	153,660	135,770
STEEL PRICES				
Pig Iron $ per ton (m)	Sept. 10	22.61	22.61	20.61
Scrap $ per ton (m)	Sept. 10	19.92	19.29	15.62
Finished c per lb. (m)	Sept. 10	2.261	2.261	2.236
STEEL OPERATIONS				
% of Capacity week ended (m)	Sept. 12	92.5	82.0	71.0
CAPITAL GOODS ACTIVITY (m) week ended	Sept. 7	92.2	89.4	73.8
PETROLEUM				
Average Daily Production bbls.★	Sept. 7	3,624	3,501	3,229
Crude Runs to Stills Avge. bbls.★	Sept. 7	3,500	3,575	3,517
Total Gasoline Stocks bbls.★	Sept. 7	77,860	78,861	66,226
Fuel Oil Stocks, bbls.★	Sept. 7	79,710	79,995	87,069
Crude—Mid-Cont. $ per bbl	Sept. 13	1.48	1.48	1.48
Crude—Pennsylvania $ per bbl	Sept. 13	1.02	1.02	1.02
Gasoline—Refinery $ per gal.	Sept. 13	.054	.054	.062

PRESENT POSITION AND OUTLOOK

Electric power output is still running about 10% above last year, with the best showing being made by the Central Industrial region. The SEC Commissioner, Robert E. Healy, states that it is going to be hard for the Commission to go ahead with enforcement of **utility** reintegrations until constitutionality of the Utilities Act, particularly Section B, has been determined by the courts, and regrets that none of the companies affected has as yet seen fit to institute suit.

* * *

Expanding requirements connected with the national defense program have caused the **steel** operating rate to rebound to a new 1940 high, following partial shut-downs over Labor Day. Steel scrap prices are firm and the Government is considering an embargo on export shipments. Railroads are beginning to place their autumn orders for rail, which are expected to about equal last year's total of more than 1,000,000 tons.

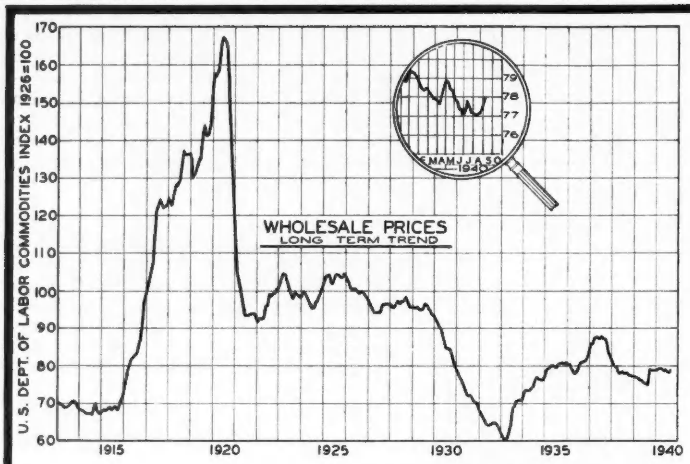
* * *

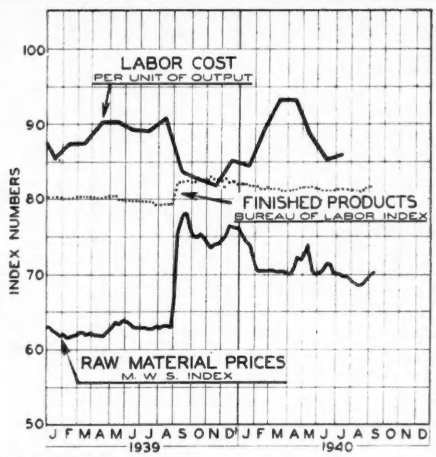
Longer range outlook for statistical improvement in the **oil industry** is brightened by the dwindling of crude oil flow from Illinois wells and the diminishing rate of discovering new sources of crude, despite increased drilling. **Gasoline** exports this year will probably be 50% below last year.

†—Millions. ★—Thousands. (a)—Revised Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1936—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

Over the past fortnight commodity prices have pursued roughly the same course as that set by the securities markets. Following the rally of two weeks ago, commodity prices developed reactionary tendencies during the early part of the past week, when reports of the heavy bombing of London resulted in some reversion of jitterieness on the part of both commodity and stock traders. Selling at no time, however, assumed the proportions of a general liquidating wave and by the end of the week representative indexes of both spot and future prices had recovered a good portion of the ground lost. Farm commodities took the bearish crop reports pretty much in their stride, reflecting the bolstering effects of crop loans. Industrial raw material prices for the most part held within a narrow range. Evidence is accumulating that inventory buying has recently been on a more liberal scale under the impetus of the accelerated defense program. Coupled with the steady gain in both industrial activity and retail trade, the psychological effect of Great Britain's stiff resistance may find tangible reflection in commodity prices over the near term, at least.





U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices—August, 1939, equals 100

	1940 High	1940 Low	Sept. 13	Sept. 6
28 Basic Commodities	124.2	105.6	109.0	109.4
Import Commodities	132.9	104.7	109.1	108.5
Domestic Commodities	118.7	105.5	109.0	110.0
Domestic Agricultural	123.8	111.4	116.1	116.4
Foodstuffs	120.0	100.5	104.6	106.2
Raw Industrial	128.4	101.3	112.4	111.3

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	Sept. 14	9.31	9.23-9.24	9.10
December	Sept. 14	9.25-26	9.21	8.85
Spot	Sept. 14	9.10	9.11	9.20
(In bales 000's)				
Consumption, U. S.	Aug.	655	598	631
Exports, wk. end	Sept. 13	13.5	16.8	137
Total Exports, season Aug. 1 to	Sept. 13	78.1	......	471
Government Crop Est.	Sept. 1	12,772	11,429	11,817(ac)
Active Spindles (000's)	July	21,917	21,943	21,915
WHEAT				
Price cents per bu. Chi. closing				
September	Sept. 14	75	75¼	85¾
December	Sept. 14	76¼	76⅞	86¾
Exports bu. (000's) since July 1 to	Sept. 7	22,317	......	23,355
Exports bu. (000's) wk. end	Sept. 7	2,303	2,994	2,785
Visible Supply bu. (000's) as of	Sept. 7	171,124	166,460	149,503
Gov't Crop Est. bu. (winter) (000's)	Sept. 1	783,560	760,623	754,971(ac)
CORN				
Price cents per bu. Chi. closing				
September	Sept. 14	63¾	62⅞	58
December	Sept. 14	56⅞	57¼	574
Exports bu. (000's) since July 1 to	Sept. 7	7,199	......	880
Visible Supply bu. (000's) as of	Sept. 7	28,662	26,454	10,260
Gov't Crop Est. bu. (000's) (final)	Sept. 1	2,297,186	2,248,246	2,619,137

PRESENT POSITION AND OUTLOOK

Cotton. The September 1st estimate by the Department of Agriculture of the cotton crop showed an increase over the August 1st estimate of 1,343,000 bales. With unusually favorable growing conditions in August, the indicated yield per acre of 250.7 pounds is the highest with a single exception of 269.9 pounds in 1937. The average of private estimates was 600,000 below the Government's. Despite this bearish report the bolstering effect of the Government loan has caused prices to remain steady.

* * *

Wheat. Reports from Canada continue bearish with the September 1st estimate of the 1940 crop at 561,000,000 bushels. Canada only consumes about 125,000,000 bushels and her exports under present conditions are likely to be around 200,000,000 bushels leaving a carryover of 235,000,000 to be added to over 300,000,000 at the beginning of the present crop year. The September 1st wheat crop estimate by the Department of Agriculture for the United States was 783,560,000 bushels as against the August 1st figure of 760,623,000 bushels.

* * *

Corn. Secretary of Agriculture Wickard issued a decision last week dropping the corn referendum for this year because the supply is below the marketing quota level.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Sept. 14	11½	11½-⅜	12.00
Export f. a. s. N. Y	Sept. 14	9.90	9.90	11½-12
Refined Prod., Domestic*	Aug.	80,851	90,995	57,339
Refined Del., Domestic*	Aug.	96,383	71,226	59,681
Refined Stocks, Domestic*	Aug. 31	198,730	215,823	316,543
Copper Sales, Domestic*	Aug.	67,281	58,495	38,209
TIN				
Price cents per lb., N. Y	Sept. 14	50.10	50.25	65.00
Tin Plate, price $ per box	Sept. 14	5.00	5.00	5.00
World Visible Supply† as of	Aug. 31	32,419	33,167	29,625
U. S. Deliveries†	Aug.	12,470	7,325	5,275
U. S. Visible Supply† as of	Aug. 31	6,583	6,567	5,339
LEAD				
Price cents per lb., N. Y	Sept. 14	4.90-4.95	4.90-4.95	5.50
U. S. Production*	July	44,596	42,306	37,021
U. S. Shipments*	July	52,560	49,904	42,636
Stocks (tons) U. S., as of	July 31	55,343	124,017	124,017
ZINC				
Price cents per lb., St. Louis	Sept. 14	6.85	6.85	6.25
U. S. Production*	Aug.	49,939	51,175	40,960
U. S. Shipments*	Aug.	64,065	57,606	49,928
Stocks U. S., as of*	Aug. 31	44,670	58,796	122.814
SILK				
Price $ per lb. Japan xx crack	Sept. 14	2.55	2.62	3.15½
Mill Dels. U. S. (bales)	Aug. 31	30,189	22,766	33,095
Visible Stocks N. Y. (bales) as of	Aug. 31	46,898	43,211	25,060
RAYON (Yarn)				
Price cents per lb	Sept. 14	53.0	53.0	51.0
Consumption (a)	Aug.	35.4	32.7	31.3
Stocks as of (a)	Aug.	9.3	11.2	18.4
WOOL				
Price cents per lb. tops, N. Y	Sept. 14	1.12	1.04	1.25
Consumption, period ending (a)	Aug. 1	28,431	19,373	27,489
HIDES				
Price cents per lb. No. 1 Packer	Sept. 14	12.0	11.8	15.0
Visible Stocks (000's) as of	July 31	12,715	12,748	13,050
No. of Mos. Supply as of	July 31	8.10	8.15	7.00
Boot and Shoe Production, Prs.★	July	33,468	27,905	34,212
RUBBER				
Price cents per lb	Sept. 14	19.19	19.37	22.25
Imports, U. S.†	July	69,474	53,889	37,372
Consumption, U. S.†	July	47,011	46,506	44,975
Stocks U. S. as of	July 31	190,222	168,235	165,450
Tire Production (000's)	July	4,854	5,127	4,595
Tire Shipments (000's)	July	4,348	6,927	5,143
Tire Inventory (000's) as of	July 31	9,345	8,881	8,103
COCOA				
Price cents per lb. Sept	Sept. 14	4.52	4.56	5.50
Arrivals (bags 000's)	Aug.	508	566	377
Warehouse Stocks (bags 000's)	Sept. 13	1,287	1,240	1,320
COFFEE				
Price cents per lb. (c)	Sept. 14	6⅝-⅞	6⅞	8.00
Imports, season to (bags 000's)	Aug. 31	2,159	......	1,868
U. S. Visible Supply (bags 000's)	Sept. 1	1,473	1,374	1,501
SUGAR				
Price cents per lb.				
Raw	Sept. 14	2.70	2.70	3.69
Refined (Immediate Shipment)	Sept. 14	4.20-4.35	4.35	5.75
U. S. Deliveries (000's)*	1st 7 mos.	3,700(pl)	......	3,586
U. S. Stocks (000's)* as of (rr)	July 1	1,033.3	2,247.2	928.7

PRESENT POSITION AND OUTLOOK

Copper. Having already bought around 150,000 tons of copper in the first eleven days of September consumers appear well covered for the remainder of the year. With the likelihood of dull periods of demand ahead, the price of copper at the Valley base declined ⅛ of a cent on two successive days last week to 11.25 cents. With the exception of April, 1937, deliveries of refined copper in August of 96,383 tons were the largest since 1929. Supplies dropped 17,093 tons to 198,730 tons, the first drop since January.

* * *

Tin. The time may not be far away when some announcement will be made regarding the National Defense Program's plans for the construction of tin smelting plants in the United States. Deliveries in August of 12,470 tons were the largest on record. Demand at the close of last week was almost stagnant with the price for straights close to 50c c. i. f.

* * *

Zinc. With some of the world's principal zinc producers, particularly Poland and Belgium, under German control the United States in the last five months has been an exporter although since 1929 exports had been negligible. At the end of August domestic zinc stocks had reached a new low level.

* * *

Silk. Mill takings of raw silk in America during the month of August showed an increase of 7,423 bales over the 22,766 bales in July.

* * *

Rayon. Shipments for the first eight months of this year were 11 per cent over the 228,100,000 pounds taken by domestic mills in same period of last year.

* * *

Wool. During the rest of this year and early next year mill consumption of apparel wool in the United States is expected to be considerably above a year earlier because of government orders for military clothing and the like.

* * *

Hides. Because of active interest by big tanners and manufacturers demand for hides is likely to continue good for the immediate future. Inventories of manufacturers are probably quite low owing to the long period of hand-to-mouth buying.

* * *

Rubber. The announcement by the International Rubber Control Committee last week of the lifting of the quota for the fourth quarter to 90 per cent creates a potentially larger supply to expedite the accumulation of emergency rubber reserves both in the United States and England.

* * *

Cocoa. July cocoa exports of 5,913,000 pounds were the largest since the world war, double the month of June and close to six times a year ago.

* * *

Sugar. War remains the most important factor in the sugar situation but the uncertainty over the passage of the Cummings bill to extend the sugar act of 1937 for one more year, has its effects.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. ★—Thousands.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Sept. 14	1¼%	1¼%	1¼%
Prime Commercial Paper	Sept. 14	½-¾%	½-¾%	⅝-1%
Call Money	Sept. 14	1%	1%	1%
Re-discount Rate, N. Y.	Sept. 14	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Aug. 31	2,347	2,431	2,383
Cumulative year's total to	Aug. 31	97,166	......	88,041
Bank Clearings, N. Y.	Aug. 31	2,293	2,230	3,634
Cumulative year's total to	Aug. 31	104,552	......	110,058
F. R. Member Banks				
Loans and Investments	Sept. 4	24,188	24,157	22,389
Commercial, Agr., Ind. Loans	Sept. 4	4,480	4,463	4,075
Brokers Loans	Sept. 4	390	363	640
Invest. in U. S. Gov'ts	Sept. 4	9,361	9,387	8,512
Invest. in Gov't Gtd. Securities	Sept. 4	2,596	2,582	2,219
Other Securities	Sept. 4	3,665	3,679	3,353
Demand Deposits	Sept. 4	20,901	21,053	18,040
Time Deposits	Sept. 4	5,358	5,340	5,235
New York City Member Banks				
Total Loans and Invest.	Sept. 11	9,678	9,599	8,361
Comm'l, Ind. and Agr. Loans	Sept. 11	1,742	1,691	1,615
Brokers Loans	Sept. 11	285	281	430
Invest. U. S. Gov'ts	Sept. 11	4,044	4,025	3,191
Invest. in Gov't Gtd. Securities	Sept. 11	1,374	1,385	1,098
Other Securities	Sept. 11	1,434	1,436	1,214
Demand Deposits	Sept. 11	9,681	9,672	8,195
Time Deposits	Sept. 11	730	730	647
Federal Reserve Banks				
Member Bank Reserve Balance	Sept. 11	13,596	13,524	11,526
Money in Circulation	Sept. 11	8,080	8,092	7,235
Gold Stock	Sept. 11	20,981	20,944	16,808
Treasury Currency	Sept. 11	3,038	3,036	2,911
Treasury Cash	Sept. 11	2,287	2,292	2,227
Excess Reserves	Sept. 11	6,540	6,490	5,270
NEW FINANCING (millions of $)				
Corporate	Aug.	179.4	270.6	343.4
New Capital	Aug.	67.9	45.0	25.9
Refunding	Aug.	111.5	225.6	317.5

COMMENT

Business borrowings by **New York City Member banks** increased $51,000,000 in the latest reported week. As a result the total rose to a new high since January, 1938. The significance of this substantial gain, however, is tempered somewhat by the fact that $50,000,000 represented a term loan made by Gulf Oil Corp., for the purpose of redeeming debentures held by insurance companies. Elsewhere in the country, commercial loans have been gaining at a relatively better pace than in the New York area.

* * *

Total loans and investments of New York City banks now stand at a new record high, with loans accounting for a gain of $61,000,000 in the latest week, and investments, $18,000,000.

* * *

The nation's gold holdings rose $37,000,000 to a record high of $20,981,000. The increase last week, however, was the smallest since the start of the war a year ago.

* * *

The past fortnight brought another spurt in new financing activity. On a single day last week four new issues of bonds and preferred stocks were placed on the market and were accorded very satisfactory public reception. Whether or not the modification of the 20-day waiting clause for new issues is stimulating activity in the new issue market, the fact remains that the continued low level of financing activities will probably be with us for some months to come—or at least until some of the major uncertainties concerning taxes, politics and the war are resolved.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1940 Indexes Aug. 24	Aug. 31	Sept. 7	Sept. 14
309 COMBINED AVERAGE	49.3	51.7	54.0	51.0
5 Agricultural Implements	68.4	72.0	76.8	71.0
6 Amusements	16.4	17.2	18.7	17.3
15 Automobile Accessories	74.2	81.4	83.2	79.6
12 Automobiles	8.4	8.9	9.2	8.6
12 Aviation (1927 Cl.—100)	161.5	173.4	177.5	166.9
3 Baking (1926 Cl.—100)	9.4	9.3	9.5	9.3
3 Business Machines	83.6	89.1	94.4	87.0
9 Chemicals	130.7	137.5	144.2	134.5
20 Construction	22.1	23.5	25.6	24.0
5 Containers	191.8	202.2	206.5	196.5
9 Copper & Brass	68.4	73.7	79.3	71.9
2 Dairy Products	25.9	26.3	27.2	26.0
7 Department Stores	16.0	17.3	18.4	17.4
6 Drugs & Toilet Articles	36.3	37.6	38.4	37.2
2 Finance Companies	181.3	189.7	205.9	182.4
7 Food Brands	86.1	87.6	90.3	86.2
3 Food Stores	44.1	45.0	46.1	44.5
4 Furniture & Floor Covering	38.4	39.1	42.0	38.8
3 Gold Mining	627.7	637.8	671.5	655.7
6 Investment Trusts	16.1	16.5	17.6	16.3
3 Liquor (1932 Cl.—100)	131.5	132.3	132.5	128.4
9 Machinery	92.3	98.5	101.1	97.2

(Nov. 14, 1936 Close—100)	1940 Indexes Aug. 24	Aug. 31	Sept. 7	Sept. 14
100 HIGH PRICED STOCKS	53.53	55.94	57.75	54.85
100 LOW PRICED STOCKS	41.19	42.91	45.64	42.33
2 Mail Order	76.1	79.8	80.3	77.2
4 Meat Packing	41.5x	46.6	47.8	44.0
13 Metals, non-Ferrous	117.2	123.9	132.6	121.9
3 Paper	12.9	14.5	14.5	13.5
22 Petroleum	65.6	66.7	68.9	65.9
18 Public Utilities	43.5	44.2	45.5	42.7
3 Radio (1927 Cl.—100)	9.0	9.9	10.5	9.6
9 Railroad Equipment	37.3	40.6	40.7	37.7
22 Railroads	8.3	8.9	9.9	9.2
2 Realty	1.5	1.4	1.4	1.6
2 Shipbuilding	84.8	91.3	91.2	85.6
11 Steel & Iron	64.5	68.6	71.4	66.9
2 Sugar	17.3x	18.1	20.3	18.3
2 Sulphur	149.8	153.6	155.9	150.5
3 Telephone & Telegraph	34.0	34.9	36.5	34.2
4 Textiles	44.4	47.4	48.4	44.7
4 Tires & Rubber	9.0	9.5	10.5	9.9
4 Tobacco	74.3	75.4	77.0	76.0
4 Traction	39.4	39.7	40.3	39.7
4 Variety Stores	203.0	206.6	213.8	209.7
20 Unclassified (1939 Close—100)	72.4	74.2	77.1	74.7

x—New LOW this year.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

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Continental Can

I am pleased with Continental Can's earnings gains but have yet to see any reflection of it in market appreciation or dividend increases for this stock. Is there possibility of a further reduction in packers' can prices, or reason to believe tin shortage imminent? I have 200 shares acquired at 49 and would like to know what action to take.—E. D. L., Spokane, Wash.

Continental Can is the second largest can manufacturer in this country, accounting for about one-fourth of total domestic output. Approximately 60% of its production is represented by cans for food packing, with the remainder being general line cans for the chemical, oil, paint, beverage, drug and other industries. Individual fruit juice cans have been introduced fairly recently and together with beverage cans, have interesting profit possibilities over the longer term. The company is also interested in the manufacture of fibre containers. About one-half of its own tin requirements is produced and it is believed that the concern is protected on such raw materials over the intermediate future. Manufacturing facilities are maintained in strategic locations. Sales of both packers' cans and the general line cans have been improved over year earlier levels, total volume running about 15% higher than a year ago, and the company reported a profit of $2.80 per share on the common stock for the twelve months ending in June of 1940 which compared with a profit of $2.22 per share in the preceding twelve months period. Sales are expected to hold relatively well during the balance of this year, at least, and further price reductions, if any, will likely not be large enough to adversely affect earnings to any great extent. Thus earnings for the full year are expected to be at least moderately ahead of the $2.71 per share reported for 1939. We look for continuation of the current 50 cents quarterly dividend rate, but expenditures for new plants may prohibit increases before the year end. Finances have been maintained in a consistently strong position, the balance sheet at the 1939 year end disclosing a current ratio of about 10.4 to 1 and cash alone of $12,320,545 was well in excess of total current liabilities of $6,002,454. There is no funded debt outstanding, the capitalization of the company consisting of 200,000 shares of $4.50 cumulative preferred and 2,853,971 shares of common stock. With indications pointing toward at least moderate improvement in earnings over coming months, we feel that retention of the issue for the income afforded as well as for its appreciation possibilities is advisable.

Foster Wheeler

I am anxious to have your advice on 100 shares of Foster Wheeler, common, which I now hold, purchased at 20⅛. I would like to know your opinion of its appreciation possibilities; how soon this stock should reflect U. S. armament, oil refinery and utility orders on hand? What additional orders are being booked? How earnings of this company should be affected by pending profit taxes? What is the status and effects of its French, English and Canadian plants?—F. M., Westport, Conn.

Foster Wheeler Corp. manufactures varied types of boiler equipment and oil refinery machinery. Brass and copper pipe, air-conditioning and cooling equipment are also produced but contribute only a minor portion of earnings. The public utility, large scale manufacturing, the oil and shipbuilding industries are among the principal customers. Installation of the company's equipment often takes considerable time and thus earnings frequently are somewhat slow to reflect operations. However, profits of the concern so far this year have scored sharp gains over those of last year, earnings for the first half of 1940 being equal to $1.15 per share on the common stock which compared with a loss of 75 cents per share in the first half of 1939. As of June 30th last, unfilled orders totalled $18,301,100, far above normal backlog for the company. The machinery and equipment

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manufacturing fields are expected to benefit extensively over coming months from better levels of industrial activity and with the subject concern's strong competitive position, it is expected that earnings for this year will be at best levels since 1930. The company will, of course, be vulnerable to excess profits taxes and foreign exchange fluctuations may not be to the company's advantage, although operations of foreign subsidiaries in Canada and England are at good levels. The French company has been liquidated and European business is being concentrated in the English subsidiary. Finances continue to be sound, the balance sheet at the 1939 year end disclosing current assets of $6,266,777 as against current liabilities of $2,970,191. Capitalization is relatively simple, consisting of 16,728 shares of $7 cumulative preferred, followed by 258,180 shares of common stock. Accumulated dividends on the preferred stock are rather high and eliminate the common from dividend consideration for the time being. However, with indications pointing toward further improvement in earnings over coming months, the common stock has a measure of speculative appeal at current levels and retention at this time appears to be advisable.

Mack Trucks

I am in doubt about my 150 shares of Mack Trucks acquired at 27⅛ and would like your analysts' advice. How do they evaluate its appreciation possibilities in this market? What is the total amount to date of orders received from the U. S. Government—or anticipated? How are industrial orders holding up for motor trucks, buses?—M. J. S., Beverly Hills, Calif.

Mack Trucks reported earnings of $1.36 per share on its capital stock for the six months ending in June of 1940, a sharp increase over the 27 cents per share reported for the first half of last year. The company is one of the leading units in the heavy duty truck field and has in recent years become active in the bus and light commercial vehicle divisions of the industry. Together with a substantial repair and replacing parts business, as well as sales of fire-fighting equipment, these latter activities now account for approximately 50% of volume. However, because of the large portion of income derived from the sale of heavy duty trucks, sales and earnings are subject to wide cyclical swings in line with conditions in the heavy industries. However, orders for buses are currently running at relatively good rates and sales of trucks, both light and heavy, should be at good levels over coming months and it is expected that considerable business will be received from the Government in connection with armament expansion. Thus, indications point toward further improvement in earnings over coming months. While working capital was decreased somewhat by losses during the depression years, finances still remain strong and according to the balance sheet at the 1939 year end, current assets exceeded current liabilities by about 5.4 to 1. The 597,335 shares of common stock outstanding comprise the entire capitalization of the company. One dividend of 50 cents per share has been declared so far this year and further payments before the year end may be made in line with earnings. The subject concern has maintained a strong competitive position and should obtain a sizable share of expected orders for trucks and buses. The stock has a relatively good degree of speculative appeal at current levels and continued retention is advised.

Texas Gulf Sulphur

D you deem it advisable to dispose of my 200 shares of Texas Gulf Sulphur now that this stock has advanced two points above my initial purchase price—or are further gains likely? Are losses of foreign markets being balanced by elimination of foreign competition? Are sales increasing to the steel, agriculture, paper, textile and chemical industries? What are the possibilities of additional extra dividend payments?—A. E. S., Toledo, Ohio.

Texas Gulf Sulphur reported earnings for the first six months of 1940 equal to $1.17 per share on the capital stock which compared favorably with profits of 85 cents per share in the corresponding period of last year. The company is the largest sulphur producing concern in this country, normally accounting for about 60% of United States output. Sulphur, mainly in the form of sulphuric acid, is used in a wide variety of industries, among the more important being the chemical, oil refining, paper, rubber, textile, paints and pigment and rayons. Normally, about three-quarters of total sales are in the United States and Canada, exports going principally to Europe. While the war abroad has resulted in the loss of certain foreign markets, it has also restricted foreign competition. Thus no adverse effects on earnings are looked for. Reserves are ample, the life of the Boling properties being estimated at 30 years and the Long Point Dome is also believed to have a long life. Other reserves are held on the Gulf coast of Texas and in Louisiana. Sales to industry in general are holding at good levels and should continue to over coming months in line with expected good levels of industrial activity, since sales of sulphur generally follow industrial trends. Prices of sulphur are characterized by stability, but there is always danger of somewhat higher taxes. However, 1940 results should compare favorably with the $2.04 per share reported for 1939. Capitalization is simple, being comprised of only 3,840,000 shares of capital stock outstanding. Finances continue to be quite strong, current assets on June 30, 1940, totaling $14,818,772, including cash of $11,631,270, as against total current liabilities of only $2,653,061. The strong financial position of the company as well as probable improvement in earnings leads to the belief that current dividend rates will be maintained and there is the possibility of an extra before the year end. We feel that continued retention of your commitment will prove worthwhile.

P. Lorillard Co.

Kindly advise me on 125 shares of P. Lorillard, common, price originally paid 24¾. What is the current sales trend for "Old Gold"? Is it meeting stronger competition now from "over-sized" cigarettes? Has the company's 10c cigarette "Sensation" taken hold? What about current revenue from scrap tobacco and chewing plug products? On the whole, are profit margins larger? Shall I continue to hold?—E. A. F., Port Washington, L. I.

P. Lorillard is an important manufacturer of all tobacco products with the exception of snuff. Its leading cigarette brand is Old Gold, and Sensation and Deities are also produced. In addition, the company manufactures smoking tobaccos under the trade names of Friends,

Briggs and Union Leader, as well as such well known cigars as Between-The-Acts, Imperial and Rocky Ford. Lorillard reported a profit equal to \$1.69 per share in 1939, a little below the \$1.78 per share reported in the preceding year, but it is expected that 1940 results will show moderate improvement. Sales of its Old Gold brand are holding at about year earlier levels while sales of Sensation were recently reported to be increasing. Sales of other products should continue to run at relatively good rates over coming months. Profit margins have been improved by lower tobacco costs which should further aid earnings over the intermediate term. Several years ago, the company inaugurated a new advertising policy which places less emphasis on Old Gold, its best known brand, and while consumption of this cigarette has dropped to fifth place from fourth in the industry, it has resulted in effecting economies at least for the time being, though the longer term results may not be so advantageous to the company. Finances continue to be quite strong, the balance sheet as of December 31, 1939, disclosing a strong liquid position with cash alone of \$4,063,145 well in excess of total current liabilities of \$2,301,076. Capitalization consists of funded debt in the amount of \$11,742,200, followed by 98,000 shares of 7% cumulative preferred (\$100 par) and 1,871,884 shares of common stock. Indications are that the present dividend will continue to be maintained. While not outstandingly attractive for their near term appreciation possibilities, the shares are a desirable holding where income is of greater importance and commitments made on that basis may be retained.

Electric Boat

What can I, as a stockholder in Electric Boat, holding 250 shares bought at 18, expect of its appreciation possibilities now? I know of the substantial government orders for submarines awarded this company, but would like information regarding the cost of additional plant facilities and machinery necessary to handle these orders—as well as the effects of profit limitations required by the Vinson Act.—P. N., Hazelton, Pa.

Electric Boat Co. is the only private submarine builder and has participated extensively over recent years in Naval expansion. The concern also manufactures generators, motors and Deisel engines, mostly for the Navy, as well as a line of pleasure craft under the well-known trade name of "Elco." This latter division is also in a position to manufacture sub-chasers and mosquito boats. The company does not report interim earnings, but in 1939 profits were equal to \$1.44 per share which was nearly double the 75 cents per share reported for the preceding year, and prospects for 1940 indicate further expansion in earnings of at least moderate proportions. Unfilled orders were recently stated to be in the neighborhood of \$45,000,000, assuring a good rate of operations for some time ahead. Business on hand has necessitated new construction facilities which are to be paid for mostly by the Government. All divisions are believed to be operating at high rates and sales of pleasure craft over the intermediate term

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BELL TELEPHONE SYSTEM

should be at best levels in some years. The shipbuilding industry as a whole should be stimulated by the war, but in the case of the subject concern, earnings gains will be subject to legislative restrictions since profits on submarines are the most important. Finances continue to be quite strong, the balance sheet at the last year end disclosing a current ratio of slightly more than 12 to 1 and cash of $5,958,306 was well in excess of total current liabilities of $903,-344. The 752,726 shares of capital stock outstanding represent the sole claim on assets and earnings. It is expected that present dividends at the indicated rate of 80 cents per share annually will be continued. In consideration of the reasonable yield which is afforded at current levels and the probability of further earnings increases, the shares have a degree of attraction at current levels and their retention is recommended.

Beatrice Creamery

I bought 75 shares of Beatrice Creamery at 30 this spring—saw it rise to 35¾ to reach a new high and continued to hold believing this stock was in store for further gains as result of generally higher prices for commodities and dairy products as the result of war. Does the current price of this stock reflect for the most part general weakness in the market as a whole, or a substantial downtrend in sales and earnings. What is the company's earnings and market outlook now?—L. L. F., New York, N. Y.

Beatrice Creamery is the third largest domestic distributor of dairy products, and operations embrace all branches of the dairy industry. More than half of earnings are believed to come from sales of fluid milk and ice-cream, about one-quarter from butter and the balance from cheese, eggs, poultry and cold-storage operations. Several years ago the company began marketing a casein paint and also started the sale of frozen fish and sea-foods, which it has extended to fruit and fruit juices, poultry, meat and other foods since that time. These activities contribute only moderately to earnings at this time, of course, but have interesting longer term profit possibilities. For the quarter ended May 31, 1940, profits were equal to $0.26 per share, a drop from $0.60 per share reported for the corresponding period of the preceding fiscal term, but this decline was largely due to a late spring which caused a fall in the production and sale of butter and ice-cream. Although profit margins on milk are narrow due to high costs and Government regulations, better levels of consumer purchasing power should result in increased sales and profits from other lines. The company will be little affected by the war abroad. Operating economies will also help and it is believed that earnings will approach the $3.90 per share reported for the fiscal year ended in February, 1940. Continuation of the annual $1 dividend rate, supplemented from time to time with extras, is expected. Finances continue to be very strong, the balance sheet as of February 28, 1940, disclosing current assets of $10,978,986, including cash of $5,060,436, as compared with total current liabilities of $1,-390,975. Capitalization consists of 96,617 shares of $5 cumulative preferred stock and 378,141 shares of common. The shares have a moderate degree of appreciation possibilities and are particularly attractive where one is primarily interested in income. Retention is recommended.

International Nickel

What significance is there to the recent show of market strength for International Nickel? Do you believe the U. S.-Canadian defense alliance will materially enhance the future of International Nickel shares? How are earnings being affected by war profit limitations and price controls? Do you advise retention of 125 shares bought at 33¼?—E. L., Providence, R. I.

International Nickel accounts for about 85% of world output of nickel. The company is also the largest producer of platinum and related metals and is one of the four largest producers of copper. However, earnings are primarily dependent on volume of nickel sales since the price of that metal has not varied for some 14 years and fluctuations in the price of copper and platinum have only minor effects on net income. Currently, earnings are being restricted by price limitations and sharply higher taxes and thus, although sales have been at relatively good levels, the company was able to report a profit of only $1.17 per share for the first half of 1940 as against $1.15 per share in the corresponding period of last year. However, it is expected that sales of nickel in Canada, Great Britain and the United States will be at levels sufficient to offset loss of European markets although earnings probably will show no improvement over the $2.39 per share reported in 1939. Under these conditions, it cannot be said that the current $2 annual dividend rate is entirely safe until the earnings outlook has become more clear. Maintenance of present rates is probable for the time being, though present prices doubtless reflect some concern in the minds of investors as to how long dividends can be paid in U. S. funds. Finances continue to be quite sound, the balance sheet as of June 30, 1940, disclosing current assets of $90,268,749, including cash of $34,886,316, as against total current liabilities of $21,161,-091. Capitalization is relatively simple, there being outstanding 276,-278 shares of 7% cumulative preferred and 14,584,025 shares of common stock. Recent market action doubtless reflects the closer ties between the United States and Canada and while the immediate outlook does not indicate sharp improvement in earnings, we feel that, in consideration of the company's financial strength and strong trade position, retention of longer pull holdings is warranted.

Today's Opportunities in Chemicals

(Continued from page 673)

of income to the company. It has been this ability to produce free chlorine that has enabled Westvaco to make such an excellent showing of earnings throughout the depression years, for the contract by which Union Carbide & Carbon Co. has continued to purchase all of this gas produced by Westvaco has permitted the company to carry on its research for new products while at the same time operating profitably.

Westvaco Chlorine has long since expanded its line to include several other products such as carbon bisulphide and carbon tetrachloride which are important solvents for the paper, textile, rayon, rubber and petroleum industries and has also experimented to some extent with magnesium, an oxide of which is now being sold to the steel mills in quantity. Carbon tetrachloride has a double virtue for it is not only a widely used solvent

but it has definite anti-combustion properties that make it an ideal fire-extinguisher. With all pieces of mobile military equipment requiring fire extinguishers it is probable that the carbon tetrachloride business will experience much additional demand apart from that which would accrue to it purely as a solvent.

Foreign sales are of relatively small importance to Westvaco Chlorine but since its line of products are almost all in increasing demand for domestic manufacturing of materials that will go into export, the condition of foreign business in general will find some reflection in Westvaco's total sales. Earnings for 1939 were at the best levels since 1929 but the $1.72 a common share earned in the first six months of 1940 as compared with $1.11 for the same period of a year ago promises even better full year results for 1940 and perhaps even greater heights in 1941.

A prominent characteristic of the chemical industry is its constant quest of new products. This has resulted in an almost endless announcement of previously unheard of materials, new methods of using old materials and many substitutes for those items required by American manufacturers but heretofore obtainable only from sources outside of this country and then often at exorbitant prices. As a shining example of such a material take the case of rubber.

It is true that we have been able to secure ample supplies of natural rubber in recent years at fairly low prices but it is also true that the greater part of this material is obtained from sources that may become centers of conflict with the result that our supplies might be sharply reduced on short notice and — due to scarcity — prices advance sharply. To offset such a possibility we have laid down a fairly adequate store of raw natural rubber although the supply is by no means inexhaustible. The chemical industry has at least partially solved this situation by producing several synthetic materials which posses many of the favorable features of natural rubber and, in some instances, several superior qualities. Dow Chemical, du Pont, and Hercules Powder are perhaps the leading synthetic rubber makers among the chemical manufacturers although Goodrich Co., Goodyear Tire & Rubber and Standard Oil Co. of New Jersey are non-chemical manufacturing companies which are making great strides in producing a line of synthetic rubber materials that will eventually make us independent of foreign sources for our rubber supplies.

Standard Oil Co. of New Jersey makes its rubber substitute from butane, an element that may be secured from raw petroleum. Butane is also obtainable from the products of corn fermentation and thus opens further markets to such grain alcohol producers as Commercial Solvents and U. S. Industrial Alcohol. A very new use for butane has just been announced. It is used in combination with other substance in the manufacture of a high explosive. While the other substances are not as yet made public, one of them is said to be ozone—a variant of oxygen—and the force of the explosive is said to be very great although its stability and other qualities are not as yet generally known.

Other discoveries of chemical re-

search announced only several days ago are an effective substitute for quinine—now obtained mainly from the Dutch East Indies—which is a vital necessity in times of war and epidemic. The new quinine substitute uses a crude petroleum product as its base and while not yet in production, is at least assured of an unlimited supply of raw material. An antiseptic wall paint having the power to kill typhoid and several other infectious germs effective for at least 60 days and which retains some germicidal properties for as long as six years has also been announced. This paint would prove invaluable in the prevention of epidemics in army barracks and will likely be adopted on a large scale for that purpose as well as for hospitals both in times of peace and war.

In times of war there are strictly war chemicals such as high explosives and certain gases although even these tools of destruction are easily converted to peaceful purpose when their utility value as a weapon has gone. At the same time, those items that find their greatest use during peace times also play a strong part in war preparations or prosecution. It is therefore impossible to classify any chemical manufacturer on a basis of strictly industrial application. It is more equitable to regard all chemical companies on their prospects after peace has come rather than to consider them as being at least partially idle when we are preparing to defend ourselves should the need arise.

It seems likely that peace abroad will bring little if any change to the chemical industry that will not be apparent in every other group that serves the productive facilities of this country. The pace of progress established almost a quarter of a century ago by the chemical industry shows no signs of abating at this time and in some branches of chemical science seems even to be accelerating its pace. It is quite possible that the next 25 years will witness just as great advances in chemistry as in the past 25 years although subsequent developments will likely be refinements of former basic discoveries and a further trend toward making many things available to many men for the improvement of their way of life and at prices that they can afford to pay.

As the Trader Sees Today's Market

(Continued from page 677)

ing, but it places the company in a more vulnerable position as to excess profits taxes as well. Nevertheless, it is such propositions as this which hold the true speculative appeal in all kinds of markets.

The examples could be multiplied with ease if necessary. However, the conclusion is obvious that price-earnings ratios, either in comparison with past levels or in relation to other ratios of the present time, are meaningless without a knowledge of what causes them. The trader who forsakes his volatile, active issues and goes seeking special situations should do so with the understanding that they may remain "special" indefinitely.

G. C. Murphy Co.

(Continued from page 675)

unemployment and larger payrolls, particularly in the steel areas, the company's sales thus far this year are some 14% above a year ago. Sales in August were 26% higher than they were in August last year.

Sales gains in later months will have to stand comparison with the upturn which started in the last four months of 1939, and for this reason may not appear as impressive. If, however, the company is successful in registering an over-all gain of 15% for the full year, a not unreasonable assumption, this would bring the total up to about $54,000,000, an increase of about $7,000,000 over 1939. Not only would this be the largest volume of sales ever reported by the company, but it would be the largest year-to-year gain ever shown. Even if this estimate proves over-optimistic, the fact remains that 1940 will most certainly be the most successful year in G. C. Murphy's history.

Over the past five years, the company has been able to carry to net income an average of 6.96 cents for every dollar of sales. Representing the margin of profit, this figure during the five-year period has ranged from 5.9 cents in 1938 to 7.75 cents in 1936. Last year it was 6.99 cents, which compared with 6.79 cents for S. S. Kresge, 5.85 cents for S. H. Kress and 4.45 cents for J. J. Newberry.

The company's profit margin this year, as will the profit margin of all variety chains, must absorb increased wages to employees, higher Social Security payments and larger corporate taxes. These added burdens, however, will be lightened to some extent by the rising volume of sales but the probabilities are that the average variety chain can count itself fortunate if profit margins do not decline below the average of recent years. However, if any company is able to absorb higher costs without impairing profit margins, G. C. Murphy on the strength of its comparative record in recent years would seem to be in an excellent position to do so.

An increase of 15% in 1940 sales, and with a margin of profit no smaller than in 1939 would permit the company to earn in the neighborhood of $7.40 for its common stock. A 10% increase in sales, on the same basis, would net around $7 a share for the common. Should profit margins decline as much as 1%, an unlikely possibility at this time, earnings would be reduced to about $6.40 and $6 per share respectively. Even at the worst, however, earnings would provide a 50% margin of safety for the indicated dividend of $4 annually on the common stock. Net on the common stock in 1939 was equal to $6.47 a share and has averaged $5.49 a share over the past five years.

Rounding out the predominantly favorable aspects of G. C. Murphy Co., are a modest capital structure and an excellent financial position. Preceding the 480,500 shares of common stock are only 40,000 shares of $5 preferred stock, 628,586 in term mortgages and $228,702 in installment loans due to 1952. At the end of last year current assets, including some $3,000,000 in cash, totaled $9,433,867, while current liabilities amounted to $3,822,207.

In the matter of dividends, the company has been conservative but in recent years as working capital has been built up the tendency has been toward more liberal payments to common stockholders. In no year since 1921 has the common stock

failed in the payment of a dividend.

To the investor seeking a promising speculative play, G. C. Murphy common stock offers little inducement. But the issue with its impressive background of sustained earnings and dividends, commands conservative investment consideration. At recent levels around 76, the indicated yield is better than 5%.

Can English Money Outlast German Food and Oil?

(*Continued from page 663*)

Swedish iron ore output have solved the problem of raw material—one of the weaknesses at the beginning of the war.

The conquest has alleviated the problem of supplies of non-ferrous metals, certain steel alloys, textile raw materials, oil and foodstuffs, but has by no means solved it. The entrance of Italy into the war definitely increased the drain on the available Axis resources, since Italy can no longer count upon imports from overseas. Dislocation of communication and distribution, destruction of industrial plants and, unquestionably, a certain amount of sabotage among the 80,000,000 conquered peoples will prevent the full use of newly acquired resources.

The chief reason for serious food shortages in local areas this coming Winter may really be the disorganization of continental communication and distribution (and even such proven organizers as Germans may require a long time to straighten it out) rather than short crops. There is also some reserve to be obtained by lowering the standard of living of conquered people. Moreover, the shortage of fodder and diversion of potatoes for human food have been forcing drastic slaughtering of livestock. As a result, the rations of meats and fats—the weakest links in the food situations—may be even increased. As a whole, however, the continent is still a long way from general starvation.

Nor is the oil situation likely to become a deterring factor in restricting the German military machine for some time to come, although the low octane content of the gasoline used in the bombers recently brought down in England has led many to believe that German oil reserves may be exhausted in a few months. On the other hand, H. B. Dorsey, formerly with the Socony-Vacuum Oil Co., recently placed the German-Italian oil reserves at 7,000,000 to 10,000,000 tons, which he estimates could be theoretically exhausted in 8 to 11 months. Monthly new supplies of oil to the Axis Powers—including oil from Albania, Roumania, Russia and synthetic output—were placed by him at 910,000 tons, as against monthly demand of 1,800,000 tons. He estimated that about 2,100,000 tons of oil were captured in Denmark, Norway, Belgium and France.

Germany in the future will probably receive a larger portion of the Roumanian oil output of 6,400,000 tons than she has been receiving heretofore (900,000 tons a year). This increase, together with the drastic curtailment of all civilian uses (in Italy the consumption is reported to have declined about 70 per cent) might provide the Axis Powers with enough oil to continue their military operations on the present scale for at least one year to come.

While Germany has gained enormous advantages from the conquest of the continent she cannot, so long as the British blockade is effective, fully utilize her enlarged industrial and agricultural capacity, because she must have overseas raw materials. Hence, she will have to face ever increasing deficiencies of foodstuffs and oil, critical stages of which may yet be some time off.

Hitler, to have a margin of safety, will therefore have to seek access to supplies of foodstuffs and petroleum elsewhere. In North and Central Africa, he is likely to get only some fats, fertilizers and cotton, but no food and oil. In the Near East, he might get a considerable quantity of oil (about twice as much as in Roumania) but he would get little food and would encounter the opposition of both the British and Russians. In case he struck East through the Ukraine to the Caucasian oil fields, he would get food and oil, but would have to battle the Russian army in a terrain favoring the latter. In South America, he could get more than sufficient supplies of both foodstuffs and oil; it is not improbable therefore that he hopes, by crippling the fortress of

MARKET VALUES

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BENEFICIAL INDUSTRIAL LOAN CORPORATION

DIVIDEND NOTICE

Dividends have been declared by the Board of Directors, as follows:

PRIOR PREFERENCE STOCK

$2.50 Dividend Series of 1938

62½¢ per share

(for quarterly period ending Sept. 30, 1940)

COMMON STOCK

45¢ per share

Both dividends are payable Sept. 30, 1940 to stockholders of record at close of business Sept. 16, 1940.

E. A. BAILEY

Sept. 3, 1940 *Treasurer*

THE ELECTRIC STORAGE BATTERY CO.

Exide BATTERIES

The Directors have declared from the Accumulated Surplus of the Company a dividend of Fifty Cents ($.50) per share on the Common Stock and the Preferred Stock, payable September 30, 1940, to stockholders of record of both of these classes of stock at the close of business on September 16, 1940. Checks will be mailed.

H. C. ALLAN, *Secretary and Treasurer.*
Philadelphia, September 6, 1940.

LOEW'S INCORPORATED

"THEATRES EVERYWHERE"

September 6, 1940

THE Board of Directors on September 4th, 1940 declared a dividend at the rate of 50c. per share on the outstanding Common Stock of this Company, payable on September 30th, 1940 to stockholders of record at the close of business on September 19th, 1940. Checks will be mailed.

DAVID BERNSTEIN
Vice President & Treasurer

UNITED CARBON COMPANY

DIVIDEND NOTICE

A dividend of 75 cents per share has been declared on the Common Stock of said Company, payable October 1, 1940 to stockholders of record at noon September 14, 1940.

C. H. McHENRY, Secretary

UNITED FRUIT COMPANY

DIVIDEND NO. 165

A dividend of one dollar per share on the capital stock of this Company has been declared payable Oct. 15, 1940 to stockholders of record at the close of business Sept. 19, 1940.

LIONEL W. UDELL, Treasurer.

Great Britain, to open the overseas routes to that continent.

American Chain and Cable Company

(*Continued from page 685*)

have been reduced to approximately $285,000. Because of its convertible feature whereby each share of preferred stock may be exchanged for four shares of common stock for the next two years, further reduction in the number of shares of the senior stock outstanding is likely. At the present time there are approximately 56,919 shares of preferred stock and 989,529 shares of no-par common stock outstanding.

The company's financial position is strong. At the close of 1939 current assets of $12,860,805 were nearly six times greater than the then total current liabilities of $2,224,992. Cash alone at the year end was comfortably in excess of total current liabilities and net working capital of about $10,635,813 was apparently ample for the company's needs. Despite the fact that inventories expanded nearly $1,000,000 during 1939, the company financed the adiditions out of funds on hand without recourse to bank loans or other forms of financing.

The strong leverage factor of the common stock is indicated by a comparison of 1939 and 1938 sales and net income. Last year, net sales were approximately 27% higher than those of a year before but net income of $2,252,483 for 1939 was more than 167% higher than that of the previous year. Sales in the first half of this year were about 17% higher than a year ago and, while the rate of increase of net income over that of a year ago was not quite so spectacular as the comparison between 1939 and 1938 results, the increase for the first half of 1940 was nevertheless 75%, still indicative of a strong earnings leverage.

Last year marked the fifth consecutive year of earnings available for the common shares and while the $1.99 a share of common stock reported was by no means a new high record, it was a very satisfactory showing. Net income for the first six months of this year was $1,169,112 or the equivalent of $1.04 a share as compared with $0.53 for the same period of 1939. It is not likely that second half results will make such a favorable comparative showing with those of a year ago, when about $1.46 a share was reported, but it is probable that full year results—even after somewhat higher taxes—will be well in excess of $2 a share of common stock and may closely approximate the $2.79 a share reported for 1937.

The company's directors have always been liberal in the matter of dividends. Only in the years 1932 to 1935 were common payments omitted and that was because of unprofitable operations in three of the four years involved. Dividends were resumed in 1936 with a payment of $4 a share on the stock then outstanding and since that time, after a 3 for 1 split in 1937, varying amounts—in keeping with earnings—have been paid on the new shares. Last year $1 a share of common stock was disbursed and to date $1.20 a share has been paid or declared, indicating a $1.60 annual dividend rate. Moreover, if earnings for this year warrant it, the rate is likely to be increased either by a year-end extra or an increase in the amount of quarterly payments.

Marketwise, the common shares are volatile; due in great part to the relatively small floating supply available. At current levels—about 20% below the year's highs and about 40% above the lows—the shares are selling to yield well over 6% and approximately eight times potential earnings for the year.

As I See It!

(*Continued from page 655*)

Germany a superabundance of manufacturing capacity. The raw materials necessary to meet her requirements have been secured in the countries she has taken. Her conquest of Lorraine has made her independent of Swedish ore; while France and Hungary supply her with all the light metals necessary for airplane production and the wherewithal for her military machine.

Thus it can be seen that out of the three essentials Germany requires to balance her economy, she possesses only two—the industrial capacity and the raw materials. She lacks the vital third—export markets—the purpose that makes the wheels go around—which are being denied her by the intensity of the British blockade. Hence it is plain that the German system which is necessarily based on the efficient working of the three component parts will not function this winter if Germany fails to win the Battle of Britain. With German industrial machinery at a standstill her situation must become progressively more desperate from now on.

The Spectre of Unemployment Rises

As a result of her critical export position, unemployment among industrial workers has seriously increased in Germany. This unemployment has been augmented by the slackening of work in munitions plants, which have greatly slowed down new production as the blitzkriegs left reserves of military supplies practically intact.

To meet this situation and to avoid the great expense entailed in relief payments, Germany has called men up to 55 to the colors—where the burden of feeding a huge unproductive army is producing considerable strain.

But the problem for the Nazis remains unsolved in the captive countries where unemployment is rife and food scarce. The desperation of these captive people constitutes a continued threat for the Nazis.

The Germans have attempted to alleviate this condition by commandeering prisoners of war as agricultural workers, of which she has always had a shortage. Before the war she imported as many as 500,000 agricultural workers from Poland alone. But the problem of unemployment and food still remains unsolved.

There will, however, be no shortage of food this winter for the Germans. The real strain will appear only if she fails to conquer England and the blockade lasts for another winter because the livestock—cattle, pigs, etc.—that are being killed off this year in Denmark, Sweden and Holland will not be there to reproduce themselves for the following year.

The Nazis will have to perform

miracles if they are to overcome and solve the economic problems of the conquered countries—for in taking Norway, Holland, Belgium, Poland, France and Czechoslovakia they have acquired great additional and unnecessary industrial capacity. All of these countries produce goods that are in competition with Germany, among which are such products as steel, glass, cement, textiles, machinery and other capital goods. This was also true in the Sudeten area which was the industrial section of Czechoslovakia.

Even the Skoda Works which were mainly geared for industrial production and secondarily for armaments, have as a result of the export impasse added largely to the unnecessary manufacturing capacity.

Germany's efforts to establish agricultural economies in the various subject countries are meeting with considerable opposition in spite of the grip of her Gestapo. There is an indication that she has even put pressure on the Italians, who are sharply rejecting the German plan and are making definite statements to the effect that Italy expects to expand as an industrial nation.

And Now—

Germany's failure to get control of the air over Britain is again delaying the greatly advertised invasion. From Italy comes the report that the Nazis are likely to postpone their "all-out" war on the British Isles until the spring. This is good news, if true—for the element of time will be against Germany.

As I pointed out two months ago, the entrance of Russia into the Balkans would oblige the Germans to change their plans. And it did. The hesitation of the German high command after the conquest of France prevented the Nazis from following through with a blitzkrieg on the British Isles which had a far greater chance of success then than it has today.

Regardless of the reasons given by German propaganda for intensification of air attacks on Britain recently, the fact is that Germany was obliged to withhold decisive bombardment until she adjusted the tense situation in the Balkans and secured political and economic control of Rumania. The last thing Germany wanted was a war on both fronts.

The plan of campaign against the British Empire has been fully coordinated. Preparations are complete along the coastline facing the British Isles. Both Portugal and Spain have been overrun by the Nazis for a long time—and North Africa brought in line. The Nazis were prepared to strike hard. Italy was made ready to do her part in the East.

And then, just as Hitler is preparing to launch his drive, Russia again steps into the picture with her demands for recognition of her rights in the Danubian waterway and basin. Russia's great nuisance value is emphasized by the statements that come from Berlin which readily recognize these rights—from Rome by the report of a possible delay in German plans until next spring.

The Hitler-Stalin pact begins to give definite signs of crumbling. Stalin is blocking Hitler because he cannot possibly afford to permit Germany to become supreme or to control the mouth of the Danube bordering on the Black Sea; nor can he permit Italy to absorb Greece and become a threat to the Dardanelles and Turkey. Italy's ambition and Stalin's necessary strategy are in conflict, and are undoubtedly causing Hitler plenty of headaches. The traditional Russian diplomacy has always been directed to control of the Dardanelles and Turkey. The latter alone has successfully invaded Russia—and that from the Black Sea, its strategic importance greatly increased since the development of the Baku oil fields, the loss of which would be an irreparable blow to Stalin.

What then will Hitler do? Action is necessary for the Nazi regime, which can only hold the German people through continuing victories. Should they decide to wait before they strike the British Isles, they

DIVIDENDS RECENTLY DECLARED

Company	Amount	Rate	Record Date	Date Payable
Air Reduction	$.25	Q	9/30	10/15
Air Reduction, extra	.25	—	9/30	10/15
Amerada	.50	Q	10/15	10/31
American Brake Shoe	.40	—	9/20	9/30
Briggs Mfg	.50	—	9/20	9/30
Brooklyn Borough Gas	.75	Q	9/30	10/10
Cleveland Electric Illuminating	.50	Q	9/20	10/ 1
Commonwealth Edison	.45	—	10/11	11/ 1
Electric Auto-Lite	.75	—	9/23	10/ 1
General Baking	.15	—	9/21	10/ 1
General Foods, $4.50 pfd	1.12½	Q	10/10	11/ 1
Greyhound Corp	.25	Q	9/21	10/ 1
Howe Sound	.75	Q	9/20	9/30
Industrial Rayon	.50	Q	9/21	10/ 1
Island Creek Coal	.50	—	9/19	10/ 1
Lerner Stores	.50	Q	10/ 3	10/15
Marlin-Rockwell	1.50	—	9/20	10/ 1
Marshall Field	.10	Q	10/15	10/31
New York Air Brake	.50	—	10/14	11/ 1
North American Rayon	.50	—	9/20	10/ 1
Pond Creek Pocahontas	.37½	—	9/19	10/ 1
Procter & Gamble, 8% pfd	2.00	Q	9/25	10/15
Reed Roller Bit	.25	Q	9/20	9/30
Reed Roller Bit, extra	.15	—	9/20	9/30
Savannah Sugar Refining	.50	Q	9/16	10/ 1
Singer Mfg	1.50	Q	9/10	9/30
Telautograph	.05	—	10/15	11/ 1
Torrington Co	.40	—	9/23	10/ 1
Tubize Chatillon, 7% pfd	1.75	Q	9/20	10/ 1
United Fruit	1.00	Q	9/19	10/15
U. S. Potash	1.50	—	9/16	9/28
Wheeling & Lake Erie Ry	1.00	—	9/24	10/ 1

Q—Quarterly.
All declarations on common unless otherwise specified.

can be counted on to direct Mussolini in an attempt to break British resistance in Egypt and Africa. But that will not be a sufficient outlet for German energy as their psychology requires action. Therefore, we may expect the Nazis to set the vigor and organizing capacity of their people to the purpose of remaking Europe. While this will not give them the necessary markets and the outlet for their export goods, still it will be used as an expedient to placate the German people temporarily.

As far as we are concerned, any certainty of a "sitzkrieg" in Germany will stimulate our markets and help our economy for at least until spring. The postponement of the invasion of England would lift the pressure and stimulate security markets. Many securities should be selling at higher prices were it not for the uncertainty of the campaign of Britain.

Another Look at—

(*Continued from page* 680)

higher costs seemed dubious, at best.

The effects of higher costs and increased taxes were apparent in the company's first half reports. Sales in that period were the largest for any similar period in the company's history. But with tire prices 12 to 14 per cent lower than a year ago, and crude rubber prices 20 per cent higher, net was equal to 94 cents a share for the common stock compared with $1.14 a share in the first six months of 1939.

The domestic outlook for the rubber industry would probably lend itself to at least moderate improvement in the months ahead but the Far Eastern aspects obviously are not predictable and will be determined only by the fortunes of war. Without attempting to gloss over the seriousness of the predicament with which U. S. Rubber is confronted, there is nevertheless basis for believing that current quotations have gone a considerable distance toward discounting the worst which may lie in store for the company. A 50 per cent decline or some $39,000,000 in the value of the company's common shares would seem to have afforded adequate allowance for the *complete* write-off of $22,000,000 of Far Eastern properties as well as the 25 per cent of the company's total earnings contributed by these properties. Of added interest is the fact that whereas a year ago the short interest in U. S. Rubber common totaled some 13,000 shares, and nearly 17,000 shares at the beginning of 1940, it is now less than 5,000 shares. From this it may be inferred that traders feel that the cream is off the short side of the issue. Bears have had a consistently better record in their judgment of the market than have the bulls.

The Bond Bulletin

(*Continued from page* 681)

help for South American bonds. Argentine Government 4s and 4½s are selling considerably nearer their lows for the year than their highs, Chile 6s are only half a point above their 1940 lows, Panama 5s at 54 compare with a range of 50 to 74⅛ for the year to date. Sao Paulo 7s, however, are nudging their highs and Republic of Colombia bonds are in the upper half of their range for the year so far.

* * *

Holders of Standard Gas & Electric debentures have been offered 58 shares of San Diego Consolidated Gas & Electric common stock in exchange for each $1,000 face amount of their bonds. This is a part of the Standard Gas plan to simplify its corporate setup and reduce funded debt. At the contemplated dividend rate of 90 cents a share on the San Diego stock, income acquired by the switch would amount to $52.50 for each $1,000 Standard Gas bond. The argument in favor of accepting the proposal is that investment quality will be improved by a closer approach to the earning assets. On the other hand, if Standard Gas & Electric goes ahead with a number of these steps, it is possible that the reduction in funded debt will be reflected in stiffening prices for its bonds still outstanding. If anything, the chances for capital appreciation would seem brighter in the Standard Gas debentures, while somewhat more dependable income would be acquired by accepting the terms of the offer.

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New York City Comptroller McGoldrick has announced another extension of the time for deposits of securities under the I. R. T.-Manhattan unification plan. Expiration of the deposit period has been moved ahead from September 12 to September 26. After that date, according to the Comptroller's office, holders who have neglected to deposit will receive a smaller amount in cash for their bonds than the terms under the plan.

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Among the highest priced issues to be dealt in flat on the New York Stock Exchange because of default of interest are the McKesson & Robbins 5½s of 1950, selling at a price better than 95. These bonds have actually been above par this year, although the trustee for the company has denied that any plans are in active contemplation for resuming interest payments. He has also remarked that the company is entitled to a better credit rating than the 5½ per cent coupon on the bonds would indicate. Observers see in this a hint that some proposal for a change in the funded debt of McKesson & Robbins may be forthcoming.

Happening in Washington

(*Continued from page* 665)

so much of a campaign issue.

Draftees' moratorium on financial obligations will slow instalment sales, extension of credit, and real estate and insurances sales to men of draft age. Similar law in effect last six months of world war caused little trouble and insignificant losses due to war phychology, booming business, and fact that instalment selling was less of a factor then than now. Already many institutions extending credit have tightened up on men subject to draft, and this might have an effect on general business conditions. Constitutionality of peace-time federal law modifying contracts under state jurisdiction may be open to challenge.

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